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Checklists and illustrative financial statements for common interest realty associations: a financial accounting and reporting practice aid, September 1998 edition

American Institute of Certified Public Accountants. Accounting and Auditing Publications

Michael Deutchman

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

SEPTEMBER 1998 EDITION

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AND ILLUSTRATIVE
FINANCIAL STATEMENTS
FOR COMMON INTEREST
REALTY ASSOCIATIONS***

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CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR COMMON INTEREST REALTY ASSOCIATIONS

*A Financial Accounting and
Reporting Practice Aid*

Edited by

Michael Deutchman, CPA

Technical Manager, Accounting and Auditing Publications

*Checklists and Illustrative Financial Statements
for Common Interest Realty Associations has not
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FSP Section 4000

Checklists and Illustrative Financial Statements for Common Interest Realty Associations

.01 The checklists and illustrative financial statements included in this section have been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as nonauthoritative technical practice aids. Readers should be aware of the following:

- The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated. Disclosures described by pronouncements whose applicability to CIRAs is deemed remote are not included in this document.
- The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.

The checklists have been updated to include relevant accounting and auditing pronouncements issued through:

- FASB Statement of Financial Accounting Standards (SFAS) No. 132, *Employers’ Disclosures about Pensions and Other Postretirement Benefits*
 - FASB Interpretation No. 42, *Accounting for Transfers of Assets in Which a Not-for-Profit Organization is Granted Variance Power*
 - FASB Technical Bulletin 94-1, *Application of Statement 115 to Debt Securities Restructured in a Troubled Debt Restructuring*
 - AICPA Statement of Position 98-6, *Reporting on Management’s Assessment Pursuant to the Life Insurance Ethical Market Conduct Program of the Insurance Marketplace Standards Association*
 - FASB Emerging Issues Task Force consensuses adopted up to and including the February 1998 meeting
 - AICPA Statement on Auditing Standards (SAS) No. 85, *Management Representations*
 - AICPA Statement on Standards for Accounting and Review Services No. 7, *Omnibus Statement on Standards for Accounting and Review Services—1992*
 - AICPA Audit and Accounting Guide *Common Interest Realty Associations* (with conforming changes as of May 1, 1998)
- The checklists and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.
 - The checklist questions are to be modified by the user, as needed, for each engagement.

.02 Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline at (888) 777-7077.

Note: This publication was extracted from sections 4000 through 4600 of the AICPA *Financial Statement Preparation Manual* (FSP).

FSP Section 4100

Introduction

.01 In the 1960's new forms of real estate ownership emerged and the terms to describe them, such as condominiums, cooperatives, planned unit development ("PUD") and timeshare development, became common. A key feature of these forms of ownership is the existence of an association of owners referred to as a common interest realty association ("CIRA").

Condominium: Each owner has title to a defined interior space within a building and an undivided ownership interest in common property within a development, such as the grounds and recreational facilities. A condominium association generally owns no real property, but it is responsible for maintaining the common property and providing necessary services. In certain jurisdictions, condominiums may be established as condominium trusts; such entities may own the real estate and all the improvements. If they do, the accounting and reporting for condominium trusts are the same as for cooperatives.

Planned Unit Development: A form of land development in which various structures are clustered for optimal use of the property. A PUD owner buys a lot and improvements on the lot. The title to common property is held by a CIRA, generally a Homeowners' Association ("HOA").

Cooperative: A form of ownership in which a corporation owns the common property, including all of the improvements, and is responsible for its maintenance, debt service, repairs, and so forth. The owners do not own any of the common property, but they own shares of stock of the corporation. The corporation functions in the same way as other CIRAs in maintaining common property and providing services.

Timeshare Development: A form of ownership in which each owner has a time-share interest, commonly referred to as interval use, that represents a right to use a unit in a time-share development for a specified number of weeks during a year. These types of entities may also be referred to as fractional ownership associations.

.02 Regardless of the form of ownership of a CIRA, a CIRA member has a defined ownership interest that can be transferred to buyers of the units or shares. Additionally, the CIRA member is entitled to share in the distribution of resources in the event of a liquidation. Membership in a CIRA is generally mandatory for owners and is a condition in the agreement to purchase either a unit in a condominium or shares in a cooperative.

Operating Statutes

.03 The operations of a CIRA are regulated by the individual states and not by the federal government. A CIRA derives authority for all matters from state corporate and not-for-profit statutes, declarations of covenants, master deeds, membership agreements, articles of incorporation, bylaws and board of directors' actions. Federal regulations, however, apply to the income tax treatment of a CIRA.

Primary Accounting Methods

.04 CIRAs should report financial activities using the accrual basis of accounting. Alternatively, the cash basis of accounting may be used if the results of applying that basis do not differ significantly from the results of using the accrual basis.

.05 Fund reporting, commonly used by not-for-profit organizations, is recommended for condominium associations and homeowners' associations. The financial statements of a cooperative are generally presented like those of commercial entities. However, a cooperative may present financial statements using fund reporting.

.06 CIRAs can generally present unclassified balance sheets. However, CIRAs having significant commercial operations, such as rental operations, should consider presenting classified balance sheets.

Structure of the Checklist

.07 Because most CIRAs use fund accounting, the checklist presents the fund accounting guidance first. Any modifications needed to reflect nonfund accounting are presented in italicized text and brackets immediately after the related fund accounting guidance.

FSP Section 4200

Checklists—General

.01 AICPA disclosure checklists have been designed as practice aids to assist accountants in the preparation of financial statements and to assist auditors in their evaluation of the adequacy of disclosures in the financial statements they audit. Authoritative literature does not require the use of checklists, nor does it prescribe their format or content.

.02 This checklist consists of a number of questions or statements that are accompanied by references to the established sources of GAAP in which the disclosure requirements are found. These sources include Statements of Financial Accounting Standards, FASB Interpretations, Accounting Principles Board Opinions, Accounting Research Bulletins, AICPA Audit and Accounting Guides, AICPA Statements of Position, and EITF consensuses. Checklists are designed to serve as convenient memory aids but should not be used as a substitute for direct reference to authoritative literature.

.03 To use this checklist, simply check “yes,” “no,” or “not applicable” for each question. If additional information needs to be documented, include separate cross-referenced memoranda.

.04 As you use this checklist, please remember that:

- The exercise of sound professional judgment is of paramount importance in applying the checklist provisions.
 - The checklist may require modification based on the engagement circumstances.
 - The checklist may not be all-inclusive.
 - Users need to modify the checklist for any pronouncements issued subsequent to those mentioned in the checklist.
-

FSP Section 4300

Financial Statements and Notes Checklist

.01 This checklist has been developed by the AICPA Accounting and Auditing Publications Team as a nonauthoritative practice aid for use by accountants in preparing financial statements and by auditors in auditing them. This checklist and the reporting checklists include disclosures commonly encountered in the financial statements of common interest realty associations and reporting issues likely to be encountered by accountants who audit, compile, and review these types of financial statements. They do not include all disclosures required by GAAP or address all reporting situations that may be encountered in performing engagements in accordance with GAAS and SSARS. The illustrative financial statements are intended to provide financial statement formats and disclosures for a hypothetical CIRA. They are not intended to illustrate all disclosures required by GAAP, nor do they illustrate all of the disclosures covered in the checklist.

.02 Explanation of References:

AAG =	AICPA Audit and Accounting Guide <i>Common Interest Realty Associations</i> (with conforming changes as of May 1, 1998)
SFAS =	FASB Statement of Financial Accounting Standards
FASBI =	FASB Financial Accounting Standards Board Interpretation
APB =	AICPA Accounting Principles Board Opinion
ARB =	AICPA Accounting Research Bulletin
TB =	Technical Bulletin issued by the staff of the FASB
AC =	Reference to section number in FASB <i>Accounting Standards—Current Text</i>
SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)
SOP =	AICPA Statement of Position

.03 Checklist Questionnaire:

This checklist is organized into the sections listed below. Carefully review the topics listed and consider whether they represent potential disclosure items for the entity. Place a check mark by the topics or sections considered not applicable; these sections need not be completed. For example, if the entity did not enter into any nonmonetary transactions during the year, place a check by Other Financial Statement Disclosures, Section G, "Nonmonetary Transactions," and skip this section when completing the checklist.

	<u>Place ✓ by Sections Not Applicable</u>
• General	
A. Titles and References	_____
B. Comparative Financial Statements	_____
C. Organization	_____
• Balance Sheet	
A. General	_____
B. Cash	_____

***Place ✓ by
Sections Not Applicable***

- | | |
|---|-------|
| C. Certain Investments in Debt and Equity Securities | _____ |
| D. Receivables | _____ |
| E. Common Property | _____ |
| F. Depreciable Assets | _____ |
| G. Current Liabilities | _____ |
| H. Notes Payable and Other Debt | _____ |
| I. Income Taxes | _____ |
| J. Shareholders' Equity | _____ |
| K. Fund Balance | _____ |
| • Statement of Revenues and Expenses | _____ |
| • Statement of Changes in Fund Balance | _____ |
| • Statement of Cash Flows | _____ |
| • Summary of Significant Accounting Policies | |
| A. Accounting Policies | _____ |
| B. Certain Significant Estimates | _____ |
| • Other Financial Statement Disclosures | |
| A. Future Major Repairs and Replacements | _____ |
| B. Required Supplemental Information | _____ |
| C. Accounting Changes | _____ |
| D. Risks, Uncertainties, Commitments, and Contingencies | _____ |
| E. Related-Party Transactions | _____ |
| F. Financial Instruments and Derivatives | _____ |
| G. Nonmonetary Transactions | _____ |
| H. Illegal Acts | _____ |
| I. Special Assessments and Guarantees | _____ |
| J. Leases—Lessees | _____ |
| K. Environmental Remediation Liabilities | _____ |
| L. Subsequent Events | _____ |
| M. Extraordinary Items | _____ |
| N. Other | _____ |

Yes No N/A

General

A. Titles and References

1. For a full presentation in conformity with generally accepted accounting principles (GAAP), are the following financial statements presented:
 - a. Balance sheet? _____
 - b. Statement of revenues and expenses (statement of operations)? _____
 - c. Statement of changes in fund balances (statement of changes in shareholders' equity)? _____

Note: For Homeowners' Associations and Condominium Associations not using fund accounting, the term "Fund Balance" should be replaced with "Members' Equity."
[AAG, par. 4.02, fn. 6]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Statement of cash flows?	_____	_____	_____
e. Notes to financial statements?	_____	_____	_____
f. Supplementary information? [AAG, pars. 4.05, 4.31, and 9.09]	_____	_____	_____
2. Are the financial statements suitably titled? [Generally Accepted]	_____	_____	_____
3. Does each statement include a general reference to the notes indicating that they are an integral part of the financial statement presentation? [Generally Accepted]	_____	_____	_____
4. Are the notes referenced to and from the applicable statement classification or appropriately captioned? [Generally Accepted]	_____	_____	_____
B. Comparative Financial Statements			
1. Are comparative statements considered? [ARB 43, Ch. 2A, pars. 1 and 2 (AC F43.101 and .102)]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
3. If the changes occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____
4. Is the information included for the prior period sufficient to constitute a fair presentation in conformity with GAAP? [AAG, par. 4.19]	_____	_____	_____
5. If comparative annual financial statements are presented for earlier periods, are those financial statements reclassified (or restated) to reflect retroactive application of the provisions of SFAS 116? [SFAS 116, par. 30]	_____	_____	_____
C. Organization			
1. Does disclosure include information about:			
a. The CIRA's legal form (corporation or association)?	_____	_____	_____
b. The legal form of the entity for which the CIRA provides services (e.g., condominium, cooperative, etc.)?	_____	_____	_____
c. Areas it controls and the number of units (in place of the number of units, cooperative housing corporations may disclose the number of shares and time-share associations may disclose the number of weeks)?	_____	_____	_____

Practice Tip

In place of the number of units, cooperative housing corporations may disclose the number of shares and time-share associations may disclose the number of weeks.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Services and subsidies provided by the developer? [AAG, par. 4.22]	_____	_____	_____

Balance Sheet

A. General

- | | | | |
|---|-------|-------|-------|
| 1. For classified balance sheets, are assets and liabilities segregated into current and noncurrent classifications with totals presented for current assets and current liabilities?
[ARB 43, Ch. 3A (AC B05.103–.109); SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.138–.139); TB 79-3 (AC B05.501–.503); AAG, par. 4.10] | _____ | _____ | _____ |
|---|-------|-------|-------|

(If Nonfund Accounting Is Used, Omit Steps #2, #3, and #4)

- | | | | |
|---|-------|-------|-------|
| 2. Does the operating fund present assets, liabilities, and the fund balance specifically associated with the CIRA's normal maintenance and service activities (e.g., cash, assessments receivable, prepaid expenses and trade payables)?
[AAG, par. 4.06] | _____ | _____ | _____ |
| 3. Are total amounts of all fund groups presented?
[AAG, par. 4.01] | _____ | _____ | _____ |
| 4. Does the replacement fund include information about assets, liabilities, and the fund balance specifically associated with the CIRA's long-term major repair and replacement activities?
[AAG, par. 4.07] | _____ | _____ | _____ |

B. Cash

- | | | | |
|--|-------|-------|-------|
| 1. Is restricted cash appropriately segregated from cash available for current operations?
[ARB 43, Ch. 3A, par. 6 (AC B05.107)] | _____ | _____ | _____ |
| 2. Are restrictions on cash appropriately disclosed?
[AAG, pars. 4.07 and 9.16; SFAS 5, par. 18 (AC C59.120)] | _____ | _____ | _____ |
| 3. Are bank overdrafts reclassified to and presented separately in current liabilities?
[Generally Accepted] | _____ | _____ | _____ |
| 4. Are held checks (those written before but not released until after the balance sheet date) reclassified to accounts payable?
[Generally Accepted] | _____ | _____ | _____ |
| 5. Are significant concentrations of credit risk arising from cash deposits in excess of federally insured limits disclosed?
[SFAS 105, par. 20 (AC F25.115)] | _____ | _____ | _____ |

C. Certain Investments in Debt and Equity Securities

- | | | | |
|--|-------|-------|-------|
| 1. If the reporting entity presents a classified balance sheet, are all trading securities reported as current assets?
[SFAS 115, par. 17 (AC I80.116)] | _____ | _____ | _____ |
|--|-------|-------|-------|

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are held-to-maturity securities and available-for-sale securities reported separately and, if a classified balance sheet is presented, classified as current or noncurrent assets as appropriate? [SFAS 115, par. 17 (AC I80.116)]	_____	_____	_____

Practice Tip

Presentation of individual amounts for trading securities, held-to-maturity securities, and available-for-sale securities on the face of the balance sheet is not required as long as the information is provided in the notes to the financial statements.

3. For investments in debt and marketable equity securities classified as available-for-sale or held-to-maturity, are the following disclosures made by major-security type, for each balance sheet presented:			
a. Aggregate fair value?	_____	_____	_____
b. Gross unrealized holding gains or losses?	_____	_____	_____
c. Amortized cost basis? [SFAS 115, par. 19 (AC I80.118)]	_____	_____	_____
4. For investments in debt securities classified as available-for-sale or held-to-maturity:			
a. Is disclosure made about their contractual maturities as of the date of the latest balance sheet presented (maturity information may be combined in appropriate groupings)?	_____	_____	_____
b. If securities not due at a single date (such as mortgage-backed securities) are allocated over several maturity groupings, is the basis for allocation disclosed? [SFAS 115, par. 20 (AC I80.119)]	_____	_____	_____
5. For each period for which a statement of revenues and expenses are presented, are the following disclosed:			
a. The proceeds from sales of available-for-sale securities and gross realized gains and losses from those sales?	_____	_____	_____
b. The basis on which cost was determined in computing realized gain or loss (i.e., specified identification, average cost, or other method used)?	_____	_____	_____
c. The gross gains and losses included in the excess (deficiency) of revenues over expenses from transfers of securities from the available-for-sale category to the trading category?	_____	_____	_____
d. The change in net unrealized holding gain or loss on available-for-sale securities that is included in other comprehensive income?	_____	_____	_____
e. The change in net unrealized holding gain or loss on trading securities that is included in the excess (deficiency) of revenues over expenses? [SFAS 115, par. 21 (AC I80.120)]	_____	_____	_____
6. For any sales of or transfers from securities classified as held-to-maturity, are the following disclosed for each period for which a statement of revenue and expenses is presented:			
a. Amortized cost of the sold or transferred security?	_____	_____	_____
b. Related realized or unrealized gain or loss?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. The circumstances leading to the decision to sell or transfer the security? [SFAS 115, par. 22 (AC I80.121)]	_____	_____	_____
7. For those entities that enter into options with no intrinsic value at acquisition in order to purchase securities accounted for under SFAS 115, is the accounting policy for premiums paid (time value) to acquire options classified as held-to-maturity or available-for-sale disclosed? [EITF 96-11]	_____	_____	_____
8. Are significant concentrations of credit risk arising from concentrations of securities of a particular issuer disclosed? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____
9. Are investments pledged as collateral or otherwise restricted disclosed? [AAG, par. 7.26]	_____	_____	_____
D. Receivables			
1. Are accounts and notes receivable from officers, employees, stockholders, directors, developer or converter, and affiliated companies shown separately with appropriate disclosures? [ARB 43, Ch. 1A, par. 5 (AC R36.105)]	_____	_____	_____
2. Are allowances for uncollectible receivables shown as deductions from the related receivables? [APB 12, par. 3 (AC V18.102)]	_____	_____	_____
3. Are unearned discounts (other than cash or quantity discounts and the like), finance charges, and interest included in the face amounts of receivables shown as a deduction from the related receivables? [APB 6, par. 14 (AC B05.105)]	_____	_____	_____
4. If a note is noninterest bearing or has an inappropriate stated interest rate:			
a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?	_____	_____	_____
b. Does the disclosure include the effective interest rate and face amount of the note?	_____	_____	_____
c. Is amortization of discount or premium reported as interest in the income statement?	_____	_____	_____
d. Are issue costs reported on the balance sheet as deferred charges? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
5. Are significant concentrations of credit risk arising from receivables disclosed? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____
6. Have all disclosures required by SFAS 118 been made for impaired loans? [SFAS 118, par. 6i (AC 108.118 and 118A)]	_____	_____	_____
(If Nonfund Accounting Is Used, Omit Question #7)			
7. Are interfund receivables separately disclosed? [AAG, par. 4.08]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
E. Common Property			
1. Are the following disclosed:			
a. The accounting policy for recognition and measurement of common property?	_____	_____	_____
b. The description of common property reported as an asset on the CIRA's balance sheet?	_____	_____	_____
c. A description of common property to which the CIRA has title (or other evidence of ownership) that is not reported as an asset on the CIRA's balance sheet?	_____	_____	_____
d. The CIRA's responsibility to preserve and maintain common property?	_____	_____	_____
e. Terms and conditions of existing land or recreation leases?	_____	_____	_____
f. Restrictions on the use or disposition of common property? [AAG, pars. 2.14 and 9.16]	_____	_____	_____
g. Common areas controlled by the CIRA? [AAG, pars. 2.14 and 4.22]	_____	_____	_____
h. The number of units (shares for cooperative housing associations and weeks for time-share associations) owned by the developer? [AAG, par. 4.22]	_____	_____	_____
F. Depreciable Assets			
1. For depreciable assets, are the following disclosed:			
a. Depreciation expense for each period?	_____	_____	_____
b. Balances of major classes of depreciable assets by nature or function?	_____	_____	_____
c. Accumulated depreciation, either by major classes of assets or in total?	_____	_____	_____
d. The method or methods used in computing depreciation with respect to major classes of depreciable assets? [APB 12, par. 5 (AC D40.105); APB 22, par. 13 (AC A10.106); AAG, par. 2.15]	_____	_____	_____
(If Nonfund Accounting Is Used, Omit Question #2)			
2. Is the depreciation expense reported in the fund in which the asset is reported? [AAG, par. 4.13]	_____	_____	_____
3. Are capitalized interest costs disclosed? [SFAS 34, par. 21 (AC I67.118)]	_____	_____	_____
4. If an impairment loss is recognized for assets to be held and used, are the following disclosures made in financial statements that include the period of the impairment write-down:			
a. A description of the impaired assets and the facts and circumstances leading to the impairment?	_____	_____	_____
b. The amount of the impairment loss and how fair value was determined?	_____	_____	_____
c. The caption in the statement of revenues and expenses in which the impairment loss is aggregated if that loss has not been presented as a separate caption or reported parenthetically on the face of the statement?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. The business segment(s) affected, if applicable? [SFAS 121, par. 14 (AC I08.133)]	_____	_____	_____
5. If assets to be disposed of are accounted for in accordance with paragraphs 15–17 of SFAS 121, are the following disclosed in financial statements that include a period during which those assets were held:			
a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets?	_____	_____	_____
b. The business segment(s) in which assets to be disposed of are held, if applicable?	_____	_____	_____
c. The loss, if any, resulting from the application of paragraph 15 of SFAS 121?	_____	_____	_____
d. The gain or loss, if any, resulting from changes in the carrying amounts of assets to be disposed of that arises from application of paragraph 17 of SFAS 121?	_____	_____	_____
e. The caption in the statement of revenues and expenses in which the gains or losses in Steps 8.c. and 8.d. are aggregated if those gains or losses have not been presented as a separate caption or reported parenthetically on the face of the statement?	_____	_____	_____
f. The results of operations for assets to be disposed of to the extent that those results are included in the entity's results of operations for the period and can be identified? [SFAS 121, par. 19 (AC I08.138)]	_____	_____	_____
6. If an impairment loss is recognized, is it reported as a component of income from continuing operations? [SFAS 121, pars. 13 and 18 (AC I08.132 and .137)]	_____	_____	_____

G. Current Liabilities

Practice Tip

Section B05 of the FASB *Current Text* contains a detailed discussion of the nature of items that should be included in the current liabilities caption when a classified balance sheet is presented.

1. Are significant categories of current liabilities, such as accounts payable, accrued expenses, deferred revenue, interest payable, and amounts due to officers and employees segregated and presented separately? [Generally Accepted]	_____	_____	_____
2. If a classified balance sheet is presented, is a total for current liabilities shown? [SFAS 6, par. 15 (AC B05.118)]	_____	_____	_____
3. Are short term obligations expected to be refinanced reclassified to long term liabilities? [SFAS 6, par. 15 (AC B05.118)]	_____	_____	_____
4. If the reporting entity has not accrued compensated absences (SFAS 43) because the amount cannot be reasonably estimated, is that fact disclosed? [SFAS 43, par. 6 (AC C44.104)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. If a debtor enters into a binding contract with a holder of its debt obligation to redeem the debt security at a future date within one year for a specified amount greater than (or less than) the debtor's carrying amount of the debt, is the debt obligation classified as a current liability? [EITF 95-15]	_____	_____	_____
6. Are borrowings outstanding under revolving credit agreements that include both a subjective acceleration clause and a requirement to maintain a lock-box arrangement, whereby remittances from the borrower's customers reduce the debt outstanding, classified as short-term obligations? [EITF 95-22]	_____	_____	_____
7. If property and real estate tax accruals are subject to a substantial measure of uncertainty, has the liability been disclosed as an estimate? [ARB 43, Ch. 10A, par. 16]	_____	_____	_____

H. Notes Payable and Other Debt

1. Are major categories of debt (notes payable to banks, mortgages payable, and notes to related parties) identified on the balance sheet or in the notes to the financial statements?	_____	_____	_____
2. Are interest rates, maturities, conversion features, and other significant terms (for example, subordinated features) of long term debt disclosed? [Generally Accepted]	_____	_____	_____
3. Are terms and conditions provided in loan agreements and bond indentures, such as assets pledged as collateral, covenants to reduce debt, maintain working capital, and restrict dividends disclosed? [SFAS 5, par. 18 (AC C59.120)]	_____	_____	_____
4. Are the following disclosed for each of the five years following the latest balance sheet presented:			
a. The aggregate amount of payments for unconditional purchase obligations that meet the criteria set forth in SFAS 47 and that have been recognized in the purchaser's balance sheet?	_____	_____	_____
b. The combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings? [SFAS 47, par. 10 (AC C32.105)]	_____	_____	_____
5. If a note is noninterest bearing or has an inappropriate stated interest rate:			
a. Is the discount or premium presented as a direct deduction from or addition to the face amount of the note?	_____	_____	_____
b. Is the effective interest rate disclosed?	_____	_____	_____
c. Is the face amount of the note disclosed?	_____	_____	_____
d. Is amortization of the discount or premium reported as interest in the income statement?	_____	_____	_____
e. Are issue costs reported as deferred charges? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Are current portions of debt obligations presented as current liabilities? [ARB 43, Ch. 3A, pars. 7 and 8 (AC B05.108 and .109)]	_____	_____	_____
7. If short-term obligations have been excluded from current liabilities pursuant to SFAS 6, do disclosures include:			
a. A general description of the financing agreement?	_____	_____	_____
b. Terms of any new obligation incurred or expected to be incurred, or equity securities issued, or expected to be issued, as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118)]	_____	_____	_____
8. Are long-term obligations that are or will be callable by the creditor, either because the debtor's violation of the debt agreement at the balance-sheet date makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable, reclassified to current unless one of the following conditions is met:			
a. The creditor has waived or subsequently lost the right to demand repayment for more than one year (or operating cycle, if longer) from the balance-sheet date?	_____	_____	_____
b. The obligation contains a grace period within which the debtor may cure the violation, and it is probable that the violation will be cured within that period, thus preventing the violation from becoming callable? [SFAS 78, par. 5 (AC B05.109A)]	_____	_____	_____
9. If an obligation under question 8 above is included in long-term liabilities (or in the case of an unclassified balance sheet is included as a long-term liability in the disclosure of debt maturities), are the circumstances disclosed? [SFAS 78, par. 5 (AC B05.118); see also EITF 86-30]	_____	_____	_____
10. If debt was considered to be extinguished under the provisions of SFAS 76 prior to the effective date of SFAS 125, do disclosures include:			
a. A general description of the transaction?	_____	_____	_____
b. The amount of debt that is considered extinguished at the end of the period as long as the debt remains outstanding? [SFAS 125, par. 17b (AC L35.109)]	_____	_____	_____
11. If assets are set aside after the effective date of SFAS 125 solely for satisfying scheduled payments of a specific obligation, is disclosure made describing the nature of restrictions placed on those assets? [SFAS 125, par. 17c (AC L35.109)]	_____	_____	_____
12. If the reporting entity has borrowed funds in the form of participating mortgage loans, are the following disclosed in the financial statements:			
a. The aggregate amount of participating mortgage obligations at the balance-sheet date, with separate disclosure of the aggregate participation liabilities and related debt discounts?	_____	_____	_____
b. Terms of the participations by the lender in either the appreciation in the market value of the mortgaged real estate project or the results of operations of the mortgaged real estate project, or both? [SOP 97-1]	_____	_____	_____

	Yes	No	N/A
(If Nonfund Accounting Is Used, Omit Section K—Fund Balance)			
I. Income Taxes			
1. Has the CIRA disclosed its income tax filing status and its liability for income taxes? [AAG, par. 4.22]	_____	_____	_____
2. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed:			
a. Current tax expense or benefit?	_____	_____	_____
b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)?	_____	_____	_____
c. Investment tax credits?	_____	_____	_____
d. Government grants (to the extent recognized as a reduction of income tax expense)?	_____	_____	_____
e. The benefits of operating loss carryforwards?	_____	_____	_____
f. Tax expense that results from allocating certain benefits, either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets of an acquired entity?	_____	_____	_____
g. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the reporting entity?	_____	_____	_____
h. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years? [SFAS 109, par. 45a–h (AC I27.144a–h)]	_____	_____	_____
3. Are the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to discontinued operations, extraordinary items, items charged directly to shareholders' equity, and prior period adjustments disclosed for each year for which those items are presented? [SFAS 109, par. 46 (AC I27.145)]	_____	_____	_____
4. If the reporting entity is a public enterprise , is there a reconciliation in both percentages and dollar amounts of the reported amount of income tax expense attributable to continuing operations for the year to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations? [SFAS 109, par. 47 (AC I27.146)]	_____	_____	_____
5. If the reporting entity is a nonpublic enterprise , is there disclosure of the nature of significant items required to reconcile the reported amount of income tax expense attributable to continuing operations for the year to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations? [SFAS 109, par. 47 (AC I27.146)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Are the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes disclosed? [SFAS 109, par. 48 (AC I27.147)]	_____	_____	_____
7. Is the amount of any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated (1) to reduce goodwill or other noncurrent intangible assets of an acquired entity or (2) directly to contributed capital disclosed? [SFAS 109, par. 48 (AC I27.147)]	_____	_____	_____
8. If the reporting entity is a member of a group that files a consolidated tax return, are the following items disclosed in its separately issued financial statements:			
a. The aggregate amount of current and deferred tax expense for each income statement presented and the amount of any tax-related balances due to or from affiliates as of the date of each balance sheet presented?	_____	_____	_____
b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in a. above are presented? [SFAS 109, par. 49a and b (AC I27.148a and b)]	_____	_____	_____
9. If the reporting entity is an S corporation, partnership, or proprietorship, is the reason that no income tax expense is recorded disclosed? [Generally Accepted]	_____	_____	_____

J. Shareholders' Equity—Cooperatives

The following disclosures relate to an incorporated CIRA:

1. For each class of stock, do disclosures include the number of shares authorized, issued, and outstanding, and par or stated value per share? [Generally Accepted]	_____	_____	_____
2. Are changes in the separate component accounts of stockholder's equity and changes in the number of shares of equity securities disclosed? [APB 12, par. 19 (AC C08.102)]	_____	_____	_____
3. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities?	_____	_____	_____
4. For redeemable stock, do disclosures include the amount of redemption requirements, separately by issue or combined, of all issues of capital stock that are redeemable at fixed or determinable prices on fixed or redeemable dates in each of the five years following the date of the latest balance sheet? [SFAS 129, par. 8 (AC C24.106)]	_____	_____	_____
5. Are appropriations of retained earnings for loss contingencies clearly identified and included in shareholder' equity? [SFAS 5, par. 15 (AC R70.103)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Are restrictions on payment of dividends disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____
7. Are the carrying basis, cost, and number of shares of any treasury stock held by the reporting entity disclosed? [Generally Accepted]	_____	_____	_____
8. If treasury stock is purchased for purposes other than retirement or if ultimate disposition has not yet been decided is its cost:			
a. Shown separately as a deduction from the total of capital stock, additional paid-in capital, and retained earnings? or	_____	_____	_____
b. Accorded the accounting treatment appropriate for retired stock? or	_____	_____	_____
c. Shown as an asset in accordance with paragraph 4 of Chapter 1A of ARB 43? [APB 6, par. 12b (AC C23.103)]	_____	_____	_____
9. In the rare circumstances in which treasury stock is shown as an asset, are the circumstances for that classification disclosed? [ARB 43, Ch. 1A, par. 4 (R36.105)]	_____	_____	_____
10. If state laws relating to acquisition of stock restrict the availability of retained earnings for payment of dividends or other significant effects, is appropriate disclosure made? [APB 6, par. 13 (C23.104)]	_____	_____	_____

K. Fund Balance

1. Is the difference between the assets and liabilities of each fund group presented as the fund balance of the respective group? [AAG, par. 4.11]	_____	_____	_____
2. Are fund balance restrictions disclosed? [Generally Accepted]	_____	_____	_____
3. Have permanent transfers between funds been shown as changes in fund balances? [AAG, par. 4.17]	_____	_____	_____

(If Fund Accounting Is Used, Omit Section J—Shareholders' Equity)

Statement of Revenues and Expenses (Statement of Operations)

(If Nonfund Accounting Is Used, Omit Questions #1 and #2)

1. Are all CIRA activities, except for replacement fund activities, presented in the operating fund?	_____	_____	_____
2. If there are periodic assessments for funding future major repairs and replacements, are they reported in the replacement fund in the periods in which they are assessed, regardless of whether they are collected or expended? [AAG, pars. 3.08 and 4.13]	_____	_____	_____
3. Are revenues shown separately for:			
a. Regular assessments from members?	_____	_____	_____
b. Special assessments from members?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Assessments and subsidies charged to the developer?	_____	_____	_____
d. Developer contributions?	_____	_____	_____
e. Lawsuit settlements?	_____	_____	_____
f. Interest income?	_____	_____	_____
g. Laundry and vending machine income?	_____	_____	_____
h. Special-use charges from members and nonmembers? [AAG, pars. 4.14 and 9.13]	_____	_____	_____
4. If there are special assessments:			
a. Are the assessments earmarked for a specific expenditure?	_____	_____	_____
b. Is the specific expenditure made?	_____	_____	_____
(1) If not, is the assessment reported as deferred revenue? [AAG, pars. 4.12, 4.15, and 9.13]	_____	_____	_____
5. For special assessments, is there disclosure of:			
a. The proposed use for funds collected in special assessments?	_____	_____	_____
b. Assessments that are used for purposes other than those for which they are designated? [AAG, pars. 4.22 and 9.16]	_____	_____	_____
(If Nonfund Reporting Is Used, Omit Question #6)			
6. Is interest earned presented as revenue of the appropriate fund? [AAG, par. 4.14]	_____	_____	_____
7. For investments in common stock accounted for by the equity method, is the CIRA's share of earnings shown as a single amount except for investee extraordinary items and prior-period adjustments that are material to the CIRA? [APB 18, par. 19c and d (AC I82.109c and d)]	_____	_____	_____
8. Is the amount of interest cost incurred and any portion of interest cost that was capitalized during the period(s) presented disclosed? [SFAS 34, par. 21 (AC I67.118)]	_____	_____	_____
9. Are the following disclosed:			
a. Income tax filing status?	_____	_____	_____
b. Liability for income taxes?	_____	_____	_____
c. Credits from taxing authorities that will be phased out in future reporting periods? [AAG, pars. 4.22 and 9.16]	_____	_____	_____
10. If an association decides to dispose of a segment of a business ac- counted for in accordance with APB 30 and the measurement date occurs after the balance-sheet date but before the financial statements for the prior period have been issued and a loss is expected, are the segment's operating results presented as discontinued operations in the statement of revenues and expenses and changes in fund balances of the not yet released financial statements (assuming that the loss does not result from a discrete and identifiable event that occurs unexpectedly after the balance-sheet date)? [EITF 95-18]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
11. Are gains or losses on written put options that require net cash settlement included in earnings and disclosed in the financial statements? [EITF 96-1]	_____	_____	_____
12. If a material liability is recognized by the combined association for costs incurred to (1) exit an activity, (2) involuntarily terminate employees of an acquired company, or (3) relocate employees of an acquired company, are disclosures made in accordance with EITF Issue 95-3, <i>Recognition of Liabilities in Connection with a Purchase Business Combination</i> , in addition to the disclosures required by paragraphs 95 and 96 in APB 16, <i>Business Combinations</i> ? [EITF 95-3]	_____	_____	_____

Comprehensive Income

13. Are the following disclosed about comprehensive income:			
a. Components of comprehensive income and total comprehensive income for the period, presented in a financial statement that is displayed with the same prominence as other financial statements that constitute a full set of financial statements? [SFAS 130, pars. 14 and 22]	_____	_____	_____
b. Reclassification adjustments displayed, on the face of the financial statement in which comprehensive income is reported, or in the notes to the financial statements? [SFAS 130, par. 20]	_____	_____	_____
c. Income tax expense or benefit allocated to each component of other comprehensive income, including reclassification adjustments, either on the face of the statement in which those components are displayed or in the notes to the financial statements? [SFAS 130, par. 25]	_____	_____	_____

Note: Does the amount for fund balance on the balance sheet agree with the amount for fund balance on the statement of revenues and expenses?

Statement of Changes in Fund Balance (Shareholders' Equity)

Note: For Homeowners' Associations and Condominium Associations Not Using Fund Accounting, the Term "Fund Balance" Should Be Replaced With "Members Equity."

1. Is the statement of changes in fund balances (shareholders' equity) presented?	_____	_____	_____
2. Is beginning and ending fund balance (shareholders' equity) reconciled with results of operations for each period presented? (If Nonfund Accounting Is Used, Omit Question #3)	_____	_____	_____
3. Are permanent transfers presented as interfund transfers? [AAG, pars. 4.11 and 4.17] (If Fund Accounting Is Used, Omit Questions #4 and #5)	_____	_____	_____
4. Are changes in the separate component accounts of shareholders' equity disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Are changes in the number of shares of equity securities disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
6. Are changes in fund balance (shareholders' equity) disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____

Statement of Cash Flows

A. Format

1. Is a statement of cash flows presented for each period that a balance sheet and a statement of revenues and expenses is presented? [SFAS 95, par. 3 (AC C25.101); AAG, pars. 4.18 and 9.15]	_____	_____	_____
2. Is the policy for defining cash equivalents disclosed? [SFAS 95, par. 10 (AC C25.108)]	_____	_____	_____
3. Are major classes of gross cash receipts and gross cash payments and their arithmetic sum (the net cash flow from operating activities (direct method)) presented in the statement? [SFAS 95, par. 27 (AC C25.125)]	_____	_____	_____
4. If the direct method is used, is a reconciliation of the excess of revenues and expenses to net cash flow from operating activities provided in a separate schedule? [SFAS 95, par. 30 (AC C25.128)]	_____	_____	_____

Note: The sample cash flow statements in Exhibits 1.3 and 2.3 are presented in the direct method format.

5. If the indirect method is used:			
a. Is the same amount for net cash flow from operating activities reported indirectly by adjusting the excess of revenues and expenses (income) to reconcile it to net cash flow from operating activities? [SFAS 95, par. 28 (AC C25.126)]	_____	_____	_____
b. Is the reconciliation of the excess of revenues and expenses (income) to net cash flow from operating activities reported, either within the statement of cash flows or provided in a separate schedule, with the statement of cash flows reporting only the net cash flow from operating activities? [SFAS 95, par. 30 (AC C25.128)]	_____	_____	_____

B. Content

1. Are cash receipts and cash payments from investing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
2. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:			
a. Receipts from sales of property?	_____	_____	_____
b. Additions to building, furniture, and equipment?	_____	_____	_____
c. Loans to members? [SFAS 95, pars. 16 and 17 (AC C25.114 and .115)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
4. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:			
a. Proceeds from issuing debt?	_____	_____	_____
b. Repayments of amounts borrowed?	_____	_____	_____
c. Debt issue costs? [SFAS 95, pars. 19 and 20 (AC C25.117 and .118); EITF 95-13]	_____	_____	_____
5. Are cash receipts and cash payments classified as cash flows from operating activities for:			
a. Member assessments collected?	_____	_____	_____
b. Expenditures for major repairs and replacements?	_____	_____	_____
c. Real estate taxes?	_____	_____	_____
d. Interest income?	_____	_____	_____
e. Interest expense?	_____	_____	_____
f. Forfeited security deposits?	_____	_____	_____
g. Payments to governments for taxes, duties, fines, and other fees or penalties?	_____	_____	_____
h. Payments to settle lawsuits?	_____	_____	_____
i. Contributions to charities? [SFAS 95, pars. 22 and 23 (AC C25.120 and .121)]	_____	_____	_____
<hr/> Note: Does the amount identified as excess of revenue over expenses on the statement of cash flows agree with the amount for the excess of revenue over expenses on the statement of revenues and expenses? <hr/>			
6. If the indirect method of reporting net cash flow from operating activities is used, are amounts of interest paid (net of amounts capitalized) and income taxes paid during the period provided in related disclosures? [SFAS 95, par. 29 (AC C25.127)]	_____	_____	_____
7. Are investing and financing activities that affect recognized assets or liabilities, but that do not result in cash receipts or cash payments in the period, disclosed? [SFAS 95, par. 32 (AC C25.134)]	_____	_____	_____

Summary of Significant Accounting Policies

A. Accounting Policies

- | | | | |
|---|-------|-------|-------|
| 1. Is a description of all significant accounting policies of the reporting entity presented as either a separate summary preceding the notes to the financial statements or as the initial note?
[APB 22, par. 15 (AC A10.108)] | _____ | _____ | _____ |
| 2. Do the summary or notes identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, and results of operations?
[APB 22, par. 12 (AC A10.105)] | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Do those principles and methods identified in question 2 include all instances in which there:			
a. Is a selection from existing acceptable alternatives?	_____	_____	_____
b. Are principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry?	_____	_____	_____
c. Are unusual or innovative applications of GAAP? [APB 22, par. 12 (AC A10.105)]	_____	_____	_____
4. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included? [SOP 94-6, par. 11]	_____	_____	_____

B. Certain Significant Estimates

1. If known information available before the financial statements are issued indicates that: (a) it is at least reasonably possible that the effect on the financial statements of a condition, situation, or set of circumstances that existed the date of the financial statements will change in the near term due to one or more future confirming events, and (b) the effect of the change would be material to the financial statements:			
a. Is disclosure made of the nature of the uncertainty, including an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?	_____	_____	_____
b. If the estimate involves a loss contingency covered by SFAS 5, does the disclosure include an estimate of the possible range of loss, or state that such an estimate cannot be made?	_____	_____	_____
c. Does the disclosure describe the factors that cause the estimate to be sensitive to change? [SOP 94-6, pars. 13 and 14]	_____	_____	_____

Other Financial Statement Disclosures

A. Future Major Repairs and Replacements

1. Do the CIRA's financial statements include the following disclosures about future major repairs and replacements:			
a. Requirements in statutes or association documents to accumulate funds for major repairs and replacements?	_____	_____	_____
b. The CIRA's compliance, or lack of, with the requirements?	_____	_____	_____
c. A description of the CIRA's funding policy, if any, and compliance with that policy?	_____	_____	_____
d. A statement that funds, if any, are being accumulated based on estimated future (or current) costs, that actual expenditures may vary from these estimates, and that the variations may be material?	_____	_____	_____
e. Amounts assessed for major repairs and replacements in the current period?	_____	_____	_____
f. A statement indicating whether a study is conducted to estimate the remaining useful lives and the costs of future major repairs and replacements? [AAG, par. 4.27]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
g. If the CIRA funds major repairs and replacements by special assessments or borrowings when needs occur, is this disclosed?	_____	_____	_____

Note: See sample financial statements in section 4600, Exhibit 1.4, Future Major Repairs and Replacements, footnote 4 and Exhibit 3.4, Future Major Repairs and Replacements, footnote 6 for example disclosures.

Practice Tips

Assessments made for future major repairs and replacements should be displayed separately from other items.

CIRAs that employ fund reporting should display assessments relative to repairs and replacements in the replacement fund separately from transactions in the operating fund.

Transfers between funds that are not part of current-period operating revenues should be presented only in a statement of changes in fund balances or in a statement of changes in member's equity, if a nonfund reporting approach is used.

[AAG, par. 3.09]

B. Required Supplemental Information

1. Is the following unaudited supplementary information disclosed:

a. For estimates of current or future costs of future major repairs and replacements of existing components:

(1) Estimated amounts required? _____

(2) Methods used to determine the costs? _____

(3) Basis for calculation? _____

(4) Assumptions used for interest and inflation rates? _____

(5) Sources used and the dates of studies, if any? _____

b. For components to be repaired or replaced:

(1) Estimates of the remaining useful lives of the components? _____

(2) Estimates of current or future replacement cost? _____

(3) Amounts of funds accumulated for each component as designated by the members of the board? _____

[AAG, par. 4.31]

C. Accounting Changes

1. For changes in accounting principle, does disclosure in the period of the change include:

a. Nature of the change? _____

b. Justification for the change, including an explanation of why the newly adopted principle is preferable? _____

[APB 20, pars. 17, 18, 20, 22, 26, 28, and 35 (AC A06.113)]

2. For all changes in accounting principle, except those relating to a change in entity and those recognized in paragraphs 27–30 of APB 20:

a. Are prior-period financial statements, included for comparative purposes, presented as previously reported? _____

b. Is the effect of adopting the new accounting principle on the excess of revenues over expenses (income) before extraordinary items and on the net excess of revenues over expenses (net income) disclosed in the period of the change? _____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Does the amount include related income tax effects?	_____	_____	_____
d. Is the excess of revenues over expenses (income) before extraordinary items and the net excess of revenues over expenses (net income) computed on a pro forma basis shown on the face of the statement of revenues and expenses for all periods presented as if the newly adopted accounting principle had been applied during all periods affected? [APB 20, pars. 19–21, and 25 (AC A06.115, .117, and .121)]	_____	_____	_____
3. Is the reason for not reporting the cumulative effect of the change and not disclosing the pro forma amounts for prior years disclosed if it is impossible to determine such effects? [APB 20, pars. 25 and 26 (AC F43.101 and .102)]	_____	_____	_____
4. For changes in accounting principle that are required to be accounted for by applying retroactively the new method in restatements of prior periods, is the effect of the change on income before extraordinary items and excess of revenues over expenses disclosed? [APB 20, par. 28 (AC A10.115)]	_____	_____	_____
5. For accounting changes that are changes in estimates that affect several future periods that are not ordinary course of business accounting (e.g., uncollectible accounts), is the effect on income before extraordinary items and excess of revenues over expenses of the current period disclosed? [APB 20, par. 33 (AC A06.126)]	_____	_____	_____
6. For accounting changes that are in effect a change in entity, are the following disclosed for all periods presented:			
a. The nature of the change?	_____	_____	_____
b. The reason for the change?	_____	_____	_____
c. The effect of the change on income before extraordinary items and excess of revenues over expenses? [APB 20, pars. 34 and 35 (AC A35.112 and .113)]	_____	_____	_____
7. For accounting changes that are corrections of errors in previously issued financial statements, are the following disclosed in the period in which the error was discovered and corrected:			
a. The nature of the error?	_____	_____	_____
b. The effect of its correction on income before extraordinary items and excess of revenues over expenses? [APB 20, par. 37 (AC A35.105)]	_____	_____	_____

Practice Tip

Only accounting changes that are material need to be disclosed in the financial statements but a change that does not have a material effect in the period of the change but is reasonably certain to have a material effect in later periods should be disclosed whenever the financial statements of the period of change are presented.

8. For summaries of financial information in reports that include an accounting period in which a change in accounting principle was made, is the amount of the cumulative effect of the change that was included in net income of the period of the change shown separately along with the net income of that period in the financial statements (not in a note or parenthetically)? [APB 20, par. 39 (AC A06.134)]	_____	_____	_____
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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
D. Risks, Uncertainties, Commitments, and Contingencies			
1. Are the nature and amount of accrued loss contingencies disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, par. 9 (AC C59.108)]	_____	_____	_____
2. For loss contingencies not accrued, do disclosures indicate:			
a. Nature of the contingency?	_____	_____	_____
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, par. 10 (AC C59.109 and .111)]	_____	_____	_____
3. If exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures include the excess amount or state that no estimate is possible? [SFAS 5, par. 10 (AC C59.109)]	_____	_____	_____
4. Are the nature and amount of guarantees disclosed (e.g., of indebtedness of others)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1–3 (AC C59.114)]	_____	_____	_____
5. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
6. Is there adequate disclosure of commitments, such as those for capital expenditures and employment contracts? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____
7. When, after considering management's plans, the auditor concludes there is substantial doubt about the CIRA's ability to continue as a going concern for a reasonable period of time, is adequate disclosure of the situation made in the financial statements? [SAS 59, par. 10 (AU 341.10)]	_____	_____	_____
8. Is a description of the services the CIRA provides and the principal markets, including the location of those markets disclosed in the financial statements? [SOP 94-6, par. 10]	_____	_____	_____
9. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included in the financial statements? [SOP 94-6, par. 11]	_____	_____	_____
10. Is disclosure regarding an estimate made when known information available prior to the issuance of the financial statements indicates that the following criteria are met:			
a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events (such as the valuation allowance for commercial and real estate loans)?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The effect of the change would be material to the financial statements? [SOP 94-6, par. 13]	_____	_____	_____
11. Does the disclosure in Step 10 above indicate the nature of the uncertainty and include an indication that it is at least reasonably possible that a change in estimate will occur in the near term? [SOP 94-6, par. 14]	_____	_____	_____

Notes: If risk reduction techniques are used to mitigate losses on the uncertainty that may result from certain events, disclosures in questions 11 and 12 are encouraged but not required.

See sample financial statements in section 4600, Exhibit 1.4, Organization and Summary of Significant Accounting Policies, footnotes 1 and 2 and Exhibit 3.4, Organization and Summary of Significant Accounting Policies, footnotes 1 and 2 for example disclosures.

12. If the estimate in Step 10 above involves a loss contingency covered by SFAS 5, <i>Accounting for Contingencies</i> , do disclosures include an estimate of the possible loss or range of loss, or state that such an estimate cannot be made? [SOP 94-6, par. 14]	_____	_____	_____
13. Have the optional disclosures in paragraphs 14 and 15 of SOP 94-6 been considered? [SOP 94-6, pars. 14 and 15]	_____	_____	_____
14. Is disclosure of the concentrations described in paragraph 22 of SOP 94-6 made, if, based on information known to management prior to issuance of the financial statements, the criteria in paragraph 21 are met? [SOP 94-6, pars. 21 and 22]	_____	_____	_____

E. Related-Party Transactions

Note: Some individual board members, officers, or developers may provide the CIRA with insurance, maintenance, and management services. Such services and any other transactions with related parties may require disclosure.

1. For related-party transactions, do disclosures include:			
a. The nature of the relationships involved (e.g., parent, subsidiary and affiliated companies, board members, officers, stockholders, developers, etc.)?	_____	_____	_____
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which statements of revenue and expenses (statements of operations) are presented, and such other information deemed necessary to gain an understanding of the effects of the transactions on the financial statements?	_____	_____	_____
c. The dollar amounts of transactions for each of the periods for which statements of revenues and expenses (statements of operations) are presented?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. The effects of any change in the method of establishing the terms from that used in the preceding period?	_____	_____	_____
e. Amounts due from or to related parties as of the date of each balance sheet presented?	_____	_____	_____
f. If not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2-4 (AC R36.102-.104); AAG, par. 4.23]	_____	_____	_____
2. If 10 percent or more of the CIRA's revenues is derived from any one source, is:			
a. That fact disclosed?	_____	_____	_____
b. The amount of revenue from each source disclosed? [AAG, par. 4.25]	_____	_____	_____
3. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the CIRA and one or more other enterprises are under common ownership or management control, and the existence of the control could result in operating results or financial position of the CIRA being significantly different from those that would have resulted if the CIRA were autonomous? [SFAS 57, par. 4 (AC R36.104)]	_____	_____	_____
4. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13, par. 29 (AC L10.125)]	_____	_____	_____
5. If comparative annual financial statements are presented for earlier periods, are those financial statements reclassified (or restated) to reflect retroactive application of the provisions of SFAS 116? [SFAS 116, par. 30]	_____	_____	_____
6. Do related party disclosures include services (such as maintenance) and subsidies provided by the developer? [AAG, par. 4.22]	_____	_____	_____
F. Financial Instruments and Derivatives			
1. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS 105), are the following disclosed, either in the body of the financial statements or in the notes, by category of financial instrument:			
<p>Note: <i>Category of financial instrument</i> refers to class of financial instrument, business activity, risk, or other category that is consistent with the management of those instruments. If disaggregation of financial instruments is other than by class, the entity also should describe for each category the classes of financial instruments included in that category. Practices for grouping and separately identifying similar financial instruments <i>into classes</i> in statements of financial position, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In SFAS 105 (AC F25), "class of financial instrument" refers to those classifications.</p>			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The nature and terms, including, at a minimum, a discussion of:			
(1) The credit and market risk of those instruments?	_____	_____	_____
(2) The cash requirements of those instruments?	_____	_____	_____
(3) The related accounting policy pursuant to the requirements of APB 22 (AC A10)? [SFAS 105, par. 17, as amended by SFAS 119 par. 14(b) (AC F25.112)]	_____	_____	_____
2. Do the disclosures in Steps 1a. and 1b. distinguish between financial instruments with off-balance-sheet risk held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments with off-balance-sheet risk held or issued for purposes other than trading? [SFAS 105, par. 17, as amended by SFAS 119, par. 14d (AC F25.112A)]	_____	_____	_____
3. For financial instruments with off-balance-sheet credit risk (except for those instruments excluded by SFAS 105, paragraphs 14 and 15), do disclosures, by category of financial instrument, include:			
a. The amount of accounting loss the association would incur if any party to the financial instrument failed completely to perform according to the terms of the contract?	_____	_____	_____
b. The collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
c. The association's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security?	_____	_____	_____
d. The nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18, as amended by SFAS 119, paragraph 14(b) (AC F25.113)]	_____	_____	_____
4. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), include:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____
b. The amount of the accounting loss due to credit risk the association would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
c. The association's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security?	_____	_____	_____
d. The nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107) disclosed, together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represents assets or liabilities and how the carrying amounts relate to what is reported in the statement of financial condition? [SFAS 107, par. 10, as amended by SFAS 119, par. 15a and b (AC F25.115C)]	_____	_____	_____

Practice Tip

If disclosed in more than a single note, one of the notes should include a summary table containing the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by SFAS 107, as amended.

6. Do the disclosures in Step 5 distinguish between financial instruments held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments held or issued for purposes other than trading? [SFAS 107, par. 10, as amended by SFAS 119, par. 15c (AC F25.115)]	_____	_____	_____
7. Are the method(s) and significant assumptions used to estimate the fair value of financial instruments disclosed? [SFAS 107, par. 10 (AC F25.115C)]	_____	_____	_____
8. If it is not practicable to estimate the fair market value of a financial instrument, do disclosures include:			
a. Information pertinent to estimating the fair value of the financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?	_____	_____	_____
b. The reasons why it is not practicable to estimate fair value? [SFAS 107, par. 14 (AC F25.115J)]	_____	_____	_____
9. If the offsetting of derivative financial instruments against nonderivative financial instruments is not permitted under FASB Interpretation 39, <i>Offsetting of Amounts Related to Certain Contracts</i> , does the company, in disclosing the fair value of a derivative financial instrument, not:			
a. Combine, aggregate, or net the fair value with the fair value of the nonderivative financial instrument?	_____	_____	_____
b. Net the fair value with the fair value of other derivative financial instruments? [SFAS 107, par. 13, as amended by SFAS 119, par. 15 (AC F25.115J)]	_____	_____	_____
10. For all fiscal years subsequent to the year of transition, are SFAS 107 disclosures included for each year for which a statement of financial condition is presented for comparative purposes? [SFAS 107, par. 17]	_____	_____	_____
11. For options held and other derivative financial instruments not within the scope of SFAS 105 that do not have off-balance-sheet risk, are the following disclosures made by category of financial instrument:			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	_____	_____	_____
b. The nature and terms, including a discussion of:			
(1) Credit and market risk?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) Cash requirements?	_____	_____	_____
(3) Related accounting policy as required by APB 22?	_____	_____	_____
c. Do disclosures in Steps 1.a. and 1.b. above distinguish between financial instruments held or issued for:			
(1) Trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings?	_____	_____	_____
(2) Purposes other than trading? [SFAS 119, pars. 8 and 9 (AC F25.115L and .115M)]	_____	_____	_____
12. If the association holds or issues derivative financial instruments for trading purposes, is the following disclosed:			
a. The average fair value during the reporting period and the related end-of-period fair value, distinguishing between assets and liabilities?	_____	_____	_____
b. The net gains or losses (net trading revenue) arising from trading activities during the reporting period disaggregated by class, business activity, risk or other category consistent with management of those activities and where those net trading gains or losses are reported in the income statement and statement of changes in fund balances?	_____	_____	_____
(1) If the disaggregation is other than by class, did the association also disclose for each category the classes of derivative financial instruments, other financial instruments, and nonfinancial assets and liabilities from which the net trading gains and losses arose?	_____	_____	_____
c. The average fair value for assets and liabilities from the trading of other types of financial instruments or non financial assets? (This disclosure is encouraged but not required.) [SFAS 119, par. 10 (AC F25.115N)]	_____	_____	_____
13. Does an association that holds or issues derivative financial instruments for purposes other than trading disclose:			
a. A description of:			
(1) The objectives for holding or issuing?	_____	_____	_____
(2) The context needed to understand those objectives?	_____	_____	_____
(3) The strategies for achieving those objectives?	_____	_____	_____
(4) The classes of derivative financial instruments used?	_____	_____	_____
b. A description of how each class of derivative financial instrument is reported in the financial statements, including:			
(1) The policies for recognition and measurement or nonrecognition of the derivative financial instruments?	_____	_____	_____
(2) When recognized, where the instruments and related gains and losses are reported?	_____	_____	_____
c. For derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions, both firm and forecasted transactions for which there is no firm commitment, including:			
(1) A description of the anticipated transactions whose risks are hedged, including the expected time period of occurrence?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) A description of the classes of derivative financial instruments used to hedge?	_____	_____	_____
(3) The amount of explicitly deferred hedging gains and losses?	_____	_____	_____
(4) A description of the transaction or events that result in recognition in earnings of the deferred gains or losses? [SFAS 119, par. 11 (AC F25.115O)]	_____	_____	_____
14. Are the following encouraged, but not required, quantitative disclosures made:			
a. Interest rate?	_____	_____	_____
b. Foreign exchange?	_____	_____	_____
c. Commodity price?	_____	_____	_____
d. Other market risks consistent with management's strategies?	_____	_____	_____
e. Information of the risk of other financial instruments or nonfinancial assets and liabilities related by risk management strategy pertaining to the objectives for holding or issuing derivative financial instruments? [SFAS 119, pars. 12 and 13 (AC F25.115P and .115Q)]	_____	_____	_____

Practice Tip

Suggested methods of disclosure of the above include:

- i. Additional details about current positions and period activity.
- ii. Hypothetical effects on equity or on annual income due to several possible changes in market prices.
- iii. Gap analysis of interest rate repricing or maturity dates.
- iv. Duration of financial instruments.
- v. The entity's value at risk from derivative financial instruments and other positions at period end and the average value at risk during the year.
- vi. Any other helpful informative disclosures.

- | | | | |
|---|-------|-------|-------|
| 15. At the date of each balance sheet presented, is the information required by paragraphs 17, 18, and 20 of SFAS 105, as amended by SFAS 119 disclosed? (See Section H, "Financial Instruments," Steps 1–4 of the General disclosures section.)
[SFAS 105, par. 21, as amended by SFAS 119 (R20.109)] | _____ | _____ | _____ |
|---|-------|-------|-------|

G. Nonmonetary Transactions

- | | | | |
|---|-------|-------|-------|
| 1. Do disclosures for nonmonetary transactions during the period include: | | | |
| a. Nature of the transactions? | _____ | _____ | _____ |
| b. Basis of accounting for the assets transferred? | _____ | _____ | _____ |
| c. Gains or losses recognized on the transfers?
[APB 29, par. 28 (AC N35.120)] | _____ | _____ | _____ |

H. Illegal Acts

- | | | | |
|---|-------|-------|-------|
| 1. Has information relating to material revenue or excess of revenues over expenses derived from transactions involving illegal acts, or illegal acts that create significant unusual risks associated with material revenue or excess of revenues over expenses, considered for disclosure?
[AU section 317.15] | _____ | _____ | _____ |
|---|-------|-------|-------|

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
I. Special Assessments and Guarantees			
1. Has the CIRA disclosed assessments that were used for purposes other than those for which they were designated? [AAG, par. 4.22]	_____	_____	_____
2. Has disclosure been made of the nature of guarantees provided by a developer or other parties? [SFAS 57, par. 2]	_____	_____	_____
J. Leases—Lessees			
1. For capital leases, do disclosures include:			
a. The gross amounts of assets recorded as of each balance-sheet date presented by major classes according to nature or function? (<i>Note:</i> This information may be combined with comparable information for owned assets.) [SFAS 13, par. 16 (AC L10.112a(1))]	_____	_____	_____
b. Future minimum lease payments as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years with separate deductions from the total for the amount representing executory costs, including any profit thereon, included in the minimum lease payments and for the amount of imputed interest necessary to reduce net minimum lease payments to present value? [SFAS 13, par. 16a (AC L10.112a(2))]	_____	_____	_____
c. Total of future minimum sublease rentals to be received in the future under noncancelable subleases as of the latest balance-sheet date? [SFAS 13, par. 16a (AC L10.112a(3))]	_____	_____	_____
d. Total contingent rentals actually incurred for each period for which statement of revenues and expenses is presented? [SFAS 13, par. 16a (AC L10.112a(4))]	_____	_____	_____
e. Are the following separately identified in the balance sheet or in the notes to the financial statements:			
(1) Assets recorded under capital leases and the accumulated amortization thereon related obligations under the lease?	_____	_____	_____
(2) The related obligations under the lease? [SFAS 13, par. 13 (AC L10.112a(5))]	_____	_____	_____
f. Amortization expense, unless it is included in depreciation expense and that fact is disclosed? [SFAS 13, par. 13 (AC L10.112a(5))]	_____	_____	_____
2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:			
a. Future minimum rental payments required as of the latest balance sheet presented, in the aggregate, and for each of the five succeeding fiscal years?	_____	_____	_____
b. Total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16b (AC L10.112b)]	_____	_____	_____
3. For all operating leases:			
a. Do disclosures include rental expense for each period for which statement of revenues and expenses is presented?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Are separate amounts presented for:			
(1) Minimum rentals?	_____	_____	_____
(2) Contingent rentals?	_____	_____	_____
(3) Sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:			
a. The basis on which contingent rental payments are determined?	_____	_____	_____
b. The existence and terms of renewal or purchase options or escalation clauses?	_____	_____	_____
c. Restrictions imposed by lease agreements, such as those concerning dividends, additional debt or further leasing? [SFAS 13, par. 16d (AC L10.112d)]	_____	_____	_____
5. If there is a modification of lease terms and the increase in lease payments is a termination penalty, is the accounting policy disclosed in accordance with APB 22? [EITF 95-17; APB 22, pars. 12-14 (AC L10.108 and 109)]	_____	_____	_____

K. Environmental Remediation Liabilities

1. Is there disclosure of the following accounting policies:			
a. Whether accruals for environmental remediation liabilities are measured on a discounted basis?	_____	_____	_____
b. The policy concerning the timing of recognition of recoveries? <i>(Encouraged, but not required.)</i> [SOP 96-1 (Ch. 7, pars. 11 and 12)]	_____	_____	_____
2. Do the financial statements disclose the event, situation, or set of circumstances that triggered recognition of loss contingencies that arose out of the reporting entity's environmental remediation-related obligations? <i>(Encouraged, but not required.)</i> [SOP 96-1 (Ch. 7, par. 12)]	_____	_____	_____

Recognized Losses and Recoveries of Losses, and Reasonably Possible Loss Exposures

3. With respect to recorded accruals for environmental remediation loss contingencies and assets for third-party recoveries related to environmental remediation obligations, are the following disclosed?	_____	_____	_____
a. The nature of the accruals, if such disclosure is necessary for the financial statements not to be misleading, and, in situations where disclosure of the nature of the accruals is necessary, the total amount accrued for the remediation obligation, if such disclosure is also necessary for the financial statements not to be misleading?	_____	_____	_____
b. If any portion of the accrued obligation is discounted, the undiscounted amount of the obligation and the discount rate used in the present-value determinations?	_____	_____	_____
c. If the criteria of SOP 94-6 (it is at least reasonably possible that an estimate of the effect on the financial statements of a matter that			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>existed at the balance-sheet date will change in the near term and the effect of the change would be material to financial statements) are met with respect to the accrued obligation or to any recognized asset for third-party recoveries, an indication that it is at least reasonably possible that a change in the estimate of the obligation or of the asset will occur in the near term? [SOP 96-1 (Ch. 7, par. 20)]</p>	_____	_____	_____
4. With respect to reasonably possible loss contingencies, including reasonably possible loss exposures in excess of the amount accrued, are the following disclosed:			
a. The nature of the reasonably possible loss contingency, that is, a description of the reasonably possible remediation obligation, and an estimate of the possible loss exposure or the fact that such an estimate cannot be made?	_____	_____	_____
b. If the criteria of SOP 94-6 are met with respect to estimated loss (or gain) contingencies, an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?	_____	_____	_____
c. The estimated time frame of disbursements for recorded amounts if expenditures are expected to continue over the long term? (<i>Encouraged, but not required.</i>)	_____	_____	_____
d. The estimated time frame for realization of recognized probable recoveries, if realization is not expected in the near term? (<i>Encouraged, but not required.</i>)	_____	_____	_____
e. If the criteria of SOP 94-6 are met with respect to the accrued obligation, to any recognized asset for third-party recoveries, or to reasonably possible loss exposures or disclosed gain contingencies, the factors that cause the estimate to be sensitive to change? (<i>Encouraged, but not required.</i>)	_____	_____	_____
f. If an estimate of the probable or reasonably possible loss or range of loss cannot be made, the reasons why it cannot be made? (<i>Encouraged, but not required.</i>)	_____	_____	_____
g. If information about the reasonably possible loss or the recognized and additional reasonably possible loss for an environmental remediation obligation related to an individual site is relevant to an understanding of the financial position, cash flows, or results of operations of the entity, the following with respect to the site: (<i>Encouraged, but not required.</i>)			
(1) The total amount accrued for the site?	_____	_____	_____
(2) The nature of any reasonably possible loss contingency or additional loss, and an estimate of the possible loss or the fact that an estimate cannot be made and the reasons why it cannot be made?	_____	_____	_____
(3) Whether other potentially responsible parties are involved and the entity's estimated share of the obligation?	_____	_____	_____
(4) The status of regulatory proceedings?	_____	_____	_____
(5) The estimated time frame for resolution of the contingency? [SOP 96-1 (Ch. 7, pars. 21 and 22)]	_____	_____	_____

Probable But Not Reasonably Estimable Losses

5. If the reporting entity's probable but not reasonably estimable environmental remediation obligations may be material, are the nature of

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
the probable contingency (that is, a description of the remediation obligation) and the fact that a reasonable estimate cannot currently be made disclosed? [SOP 96-1 (Ch. 7, par. 25)]	_____	_____	_____
6. Is the estimated time frame for resolution of the uncertainty as to the amount of the loss disclosed? (<i>Encouraged, but not required</i>) [SOP 96-1 (Ch. 7, par. 25)]	_____	_____	_____

Environmental Remediation Costs Recognized Currently

7. Is the amount of environmental remediation costs recognized in the statement of revenues and expenses disclosed in the following detail: (<i>Encouraged, but not required.</i>)			
a. The amount recognized for environmental remediation loss contingencies in each period?	_____	_____	_____
b. The amount of any recovery from third parties that is credited to environmental remediation costs in each period?	_____	_____	_____
c. The statement of revenues and expenses caption in which environmental remediation costs and credits are included? [SOP 96-1 (Ch. 7, par. 29)]	_____	_____	_____

Other Matters

8. Do the financial statements include a <i>contingency conclusion</i> that addresses the estimated total unrecognized exposure to environmental remediation and other loss contingencies? (<i>Optional.</i>) [SOP 96-1 (Ch. 7, par. 30)]	_____	_____	_____
9. Is there a description of the general applicability and impact of environmental laws and regulations upon their business and how the existence of such laws and regulations may give rise to loss contingencies for future environmental remediation? (<i>Optional.</i>) [SOP 96-1 (Ch. 7, par. 31)]	_____	_____	_____

L. Subsequent Events

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the balance-sheet date? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03, .04, and .07 (AU 560.03, .04, and .07)]	_____	_____	_____
2. Are subsequent events that provide evidence about conditions that did not exist at the balance-sheet date, but arose subsequent to that date, adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); SAS 1, sec. 560.05-.07 and .09 (AU 560.05-.07 and .09)]	_____	_____	_____

Note: See sample financial statements in section 4600, including Exhibit 1.4, Future Major Repairs and Replacements, footnote 4, Exhibit 1.6, Schedule of Changes in Replacement Fund Balances, Exhibit 1.7, Supplementary Information on Future Repairs and Replacements and Exhibit 2.4, Future Major Repairs and Replacements, footnote 6, for example disclosures.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
M. Extraordinary Items			
1. Are extraordinary items segregated and shown on the face of the Statement of Revenues and Expenses using the caption "extraordinary items"?	_____	_____	_____
2. Are descriptive captions and amounts presented for individual extraordinary events or transactions, preferably on the face of the Statement of Revenues and Expenses?	_____	_____	_____
3. Do disclosures include descriptions of extraordinary events or transactions and the principal items entering into determination of extraordinary gains or losses?	_____	_____	_____
4. For an adjustment of an extraordinary item reported in a prior period:			
a. Is the adjustment classified separately as an extraordinary item in the current period?	_____	_____	_____
b. Are the nature, origin, and amount of the item disclosed? [SFAS 16, par. 16(c) (AC I17.119)]	_____	_____	_____
5. For gains or losses from extinguishment of debt classified as extraordinary items, do disclosures include:			
a. A description of the extinguishment transactions, including the sources of any funds used to extinguish the debt if it is practicable to identify the sources?	_____	_____	_____
b. The income tax effect in the period of extinguishment? [SFAS 4, pars. 8–10 (AC I17.104 and D14.105–.107)]	_____	_____	_____
N. Other			
1. If a material liability is recognized for certain employee termination benefits in accordance with Section A of EITF 94-3, <i>Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)</i> , are the following disclosures made in all periods until the plan of termination is completed:			
a. The amount of termination benefits accrued and charged to expense and the classification of those costs in the statement of revenues and expenses?	_____	_____	_____
b. The number of employees to be terminated?	_____	_____	_____
c. A description of the employee group(s) to be terminated?	_____	_____	_____
d. The amount of actual termination benefits paid and charged against the liability and the number of employees actually terminated as a result of the plan to terminate employees?	_____	_____	_____
e. The amount of any adjustment(s) to the liability? [EITF 94-3, Section A]	_____	_____	_____
2. If management commits to an exit plan that meets the criteria in Section B of EITF 94-3, are the following reporting requirements followed:			
a. Reporting the statement of revenues and expenses (statement of operations) effect of recognizing a liability at the commitment date in income from continuing operations and not on the face of the statement of revenues and expenses and changes in fund balances net of taxes?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>b. Revenue and related costs and expenses of activities that will not be continued should not be combined and reported as a separate component of income? [EITF 94-3, Section B]</p>	_____	_____	_____
<p>3. If the activities that will not be continued are significant to the association's revenue or operating results, or if the exit costs recognized at the commitment date are material, are the following disclosures made in all periods until the exit plan is completed:</p>			
<p>a. A description of the major actions comprising the exit plan, activities that will not be continued, including the method of disposition, and the anticipated date of completion?</p>	_____	_____	_____
<p>b. A description of the type and amount of exit costs recognized as liabilities and the classification of those costs in the statement of revenues and expenses and changes in fund balances?</p>	_____	_____	_____
<p>c. A description of the type and amount of exit costs paid and charged against the liability?</p>	_____	_____	_____
<p>d. The amount of any adjustment(s) to the liability?</p>	_____	_____	_____
<p>e. For all periods presented, the revenue and net operating income or losses from activities that will not be continued if those activities have separately identifiable operations? [EITF 94-3, Section B]</p>	_____	_____	_____
<p>4. If there is an extinguishment of debt, is the difference between reacquisition price and carrying amount identified as a separate or extraordinary item? [SFAS 4, par. 8, as amended by SFAS 64, par. 4 (AC D14.105)]</p>	_____	_____	_____
<p>5. Do disclosures for extinguishments of debt described in Step 5 above include:</p>			
<p>a. Description of the extinguishment transactions, including the source of any funds used to extinguish debt if it is practicable to identify the sources?</p>	_____	_____	_____
<p>b. Income tax effect in the period of extinguishment?</p>	_____	_____	_____
<p>c. The per-share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, par. 9 (AC D14.107)]</p>	_____	_____	_____
<p>6. If debt is considered extinguished under the provisions of SFAS 76, paragraph 3c, does the disclosure include:</p>			
<p>a. A general description of the transaction?</p>	_____	_____	_____
<p>b. The amount of debt that is considered extinguished, as long as the debt remains outstanding? [SFAS 76, par. 6 (AC D14.108)]</p>	_____	_____	_____
<p>7. If a covenant on a long-term loan agreement is not met, and thus, the lender has the right to call the debt, and the lender waives that right for a period of greater than one year but retains the future covenant requirements, is the debt classified as noncurrent unless both of the following are met:</p>			
<p>a. The covenant violation occurred at the balance-sheet date or would have occurred absent a loan modification?</p>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. It is probable the association will not be able to comply with the covenant at a measurement date within the next 12 months? [EITF 86-30]	_____	_____	_____
8. In years after a restructuring, are loans that are restructured in a troubled debt restructuring into two (or more) loan agreements considered separately when assessing the applicability of the disclosures in paragraphs 20(a) and 20(c) of SFAS 114? [EITF 96-22]	_____	_____	_____
9. In the event that the CIRA has pension or other postretirement benefits have the disclosure provisions of SFAS 132 and SFAS 112 been considered?	_____	_____	_____
10. If a transaction relating to the transfer and servicing of a financial asset, or the extinguishment of a liability has occurred have the disclosure provisions of SFAS 125 been considered?	_____	_____	_____

FSP Section 4400

Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

AAG =	AICPA Audit and Accounting Guide <i>Common Interest Realty Associations</i> (with conforming changes as of May 1, 1998)
SAS =	AICPA Statement on Auditing Standards
SSAE =	AICPA Statement on Standards for Attestation Engagements
SSARS =	AICPA Statement on Standards for Accounting and Review Services
AU =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)
AR =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 2)
AT =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)

.03 Checklist Questionnaire:

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Is each financial statements audited specifically identified in the introductory paragraph of the auditor's report? [SAS 58, par. 6 (AU 508.06)]	_____	_____	_____
2. Do the titles of the financial statements referred to in the introductory paragraph of the auditor's report match the titles of the financial statements presented? [Generally Accepted]	_____	_____	_____
3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor's report match the dates of the financial statements presented? [Generally Accepted]	_____	_____	_____
4. Is the report appropriately addressed? [SAS 58, par. 9 (AU 508.09)]	_____	_____	_____

The following table identifies the address mentioned in the Independent Auditor's Report for 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 1997, Fifty-first Edition.

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Board of Directors and Stockholders	480	484	483	484
Stockholders	52	56	56	54
Board of Directors	45	41	41	40
Company	14	13	16	19
Other or no address	9	6	4	3
Total Companies	600	600	600	600

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Does the auditor's report include appropriate:			
a. A title that includes the word "independent"? [SAS 58, par. 8a (AU 508.08a)]	_____	_____	_____
b. A statement that the financial statements identified in the report were audited? [SAS 58, par. 8b (AU 508.08b)]	_____	_____	_____
c. A statement that the financial statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements based on his or her audit? [SAS 58, par. 8c (AU 508.08c)]	_____	_____	_____
d. A statement that the audit was conducted in accordance with generally accepted auditing standards? [SAS 58, par. 8d (AU 508.08d)]	_____	_____	_____
e. A statement that generally accepted auditing standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement? [SAS 58, par. 8e (AU 508.08e)]	_____	_____	_____
f. A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation? [SAS 58, par. 8f (AU 508.08f)]	_____	_____	_____
g. A statement that the auditor believes that his or her audit provides a reasonable basis for his or her opinion? [SAS 58, par. 8g (AU 508.08g)]	_____	_____	_____
h. An opinion as to whether the financial statements present fairly, in all material respects, the financial position of the reporting entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended in conformity with generally accepted accounting principles? [SAS 58, par. 8h (AU 508.08h)]	_____	_____	_____
i. The manual or printed signature of the auditor's firm? [SAS 58, par. 8i (AU 508.08i)]	_____	_____	_____
j. The date of the audit report? [SAS 58, par. 8j (AU 508.08j)]	_____	_____	_____

Practice Tip

Paragraph 8 of SAS 58 illustrates the form of the auditor's standard report on financial statements covering a single year and on comparative financial statements.

The following table identifies the location of the Independent Auditor's Report in relation to the financial statements and notes for 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 1997, Fifty-first Edition.

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Follow financial statements and notes	367	385	386	392
Precedes financial statements and notes	216	200	197	193
Between financial statements and notes	8	9	10	9
Other	9	6	7	6
Total Companies	600	600	600	600

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. If a subsequent event disclosed in the financial statements occurs after completion of field work but before the issuance of the auditor's report, has the need for dual-dating of the report been considered? [SAS 1, sec. 530, pars. 3–5 (AU 530.03–.05)]	_____	_____	_____
7. If the accountant is not independent, is a compilation report indicating the lack of independence issued (non-public companies only)? [SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]	_____	_____	_____
8. If the opinion is based in part on the report of another auditor:			
a. Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors?	_____	_____	_____
b. Does the opinion paragraph include a reference to the report of the other auditor? [SAS 58, pars. 11a, 12, and 13 (AU 508.11a, .12, and .13)]	_____	_____	_____
9. If, to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA Council to establish such principles, does the report include, in a separate paragraph or paragraphs, the information required by the rule? [SAS 58, pars. 11b and 15 (AU 508.11b and .15)]	_____	_____	_____
10. If there is substantial doubt about the entity's ability to continue as a going concern:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion?	_____	_____	_____
b. Is that conclusion expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern" or similar wording that includes the terms substantial doubt and going concern? [SAS 58, par. 11c (AU 508.11c); SAS 59, as amended by SAS 64, par. 12 (AU 341.12)]	_____	_____	_____

Practice Tip

In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity's ability to continue as a going concern. See SAS 64 (AU 341.12) for an example.

11. If there has been a material change between periods in accounting principles or in the method of their application that has a material effect on the comparability of the reporting entity's financial statements:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change?	_____	_____	_____
b. Does the explanatory paragraph identify the nature of the change and refer the reader to the note to the financial statements that discusses the change in detail? [SAS 58, as amended by SAS 79, pars. 11d and 16 (AU 508.11d and .16)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
12. In an updated report, the opinion is different from the opinion previously expressed on the financial statements of a prior period:			
a. Does the report include an explanatory paragraph, preceding the opinion paragraph, that discloses all of the substantive reasons for the different opinion?	_____	_____	_____
b. Does the explanatory paragraph disclose:			
(1) The date of the auditor's previous report?	_____	_____	_____
(2) The type of opinion previously expressed?	_____	_____	_____
(3) The circumstances or events that caused the auditor to express a different opinion?	_____	_____	_____
(4) That the auditor's updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements? [SAS 58, as amended by SAS 79, pars. 11e and 69 (AU 508.11e and .69)]	_____	_____	_____
13. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:			
a. Does the introductory paragraph of the report indicate:			
(1) That the financial statements of the prior period were audited by another auditor?	_____	_____	_____
(2) The date of the predecessor auditor's report?	_____	_____	_____
(3) The type of report issued by the predecessor auditor?	_____	_____	_____
(4) If the report was other than a standard report, the substantive reasons therefor, including a description of the nature of and reasons for the explanatory paragraph added to the predecessor's report or his or her opinion qualification?	_____	_____	_____
b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 58, as amended by SAS 79, pars. 11e and 74 (AU 508.11e and .74)]	_____	_____	_____
14. If selected quarterly financial data required by SEC Regulation S-K has been omitted or has not been reviewed, does the report include an additional paragraph stating that fact? [SAS 58, par. 11f (AU 508.11f); SAS 71, par. 41 (AU 722.41)]	_____	_____	_____
15. If supplementary information required by the FASB has been omitted, the presentation of such information departs materially from FASB guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubt about whether the supplementary information conforms to FASB guidelines, does the report include an additional paragraph stating that fact? [SAS 58, par. 11g (AU 508.11g); SAS 52, par. 8 (AU 558.08)]	_____	_____	_____
16. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor's report, or both require revision? [SAS 58, par. 11h (AU 508.11h); SAS 8, par. 4 (AU 550.04)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
17. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the explanatory information presented in a separate paragraph that avoids use of phrases such as “with the foregoing (following) explanation”? [SAS 58, pars. 11 and 19, as amended by SAS 79 (AU 508.11 and .19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]	_____	_____	_____

Practice Tip

In December 1995, SAS 79, *Amendment to Statement on Auditing Standards No. 58, Reports on Audited Financial Statements*, was issued. This Statement amends SAS 58 to eliminate the requirement that, when certain criteria are met, the auditor add an uncertainties explanatory paragraph to the auditor’s report. This Statement is effective for reports issued after February 29, 1996.

18. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion? [SAS 58, as amended by SAS 79, par. 22 (AU 508.22)]	_____	_____	_____
19. If a qualified opinion is to be expressed because of a scope limitation:			
a. Are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the qualified opinion include the word <i>except</i> or <i>exception</i> in a phrase such as <i>except for</i> or <i>with the exception of</i> ?	_____	_____	_____
c. Is the situation described and referred to in both the scope and opinion paragraphs?	_____	_____	_____
d. Does the wording in the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not the scope limitation itself? [SAS 58, as amended by SAS 79, pars. 22–27 (AU 508.22–.27)]	_____	_____	_____

Practice Tip

Scope limitations include situations in which the auditor is unable to obtain sufficient evidential matter to support management’s assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements. [SAS 58, as amended by SAS 79, par. 31]

Note: Consult the Topical Index to the AICPA *Professional Standards* under “Scope of Audit—Limitations” for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

20. If an opinion is disclaimed because of a scope limitation:			
a. Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs?	_____	_____	_____
b. Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion?	_____	_____	_____
c. Does the report avoid identifying procedures that were performed?	_____	_____	_____
d. Is the scope paragraph omitted?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. If there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report? [SAS 58, as amended by SAS 79, par. 63 (AU 508.63)]	_____	_____	_____
21. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has consideration been given to the need to issue a qualified opinion or an adverse opinion? [SAS 58, as amended by SAS 79, par. 35 (AU 508.35)]	_____	_____	_____
22. If a qualified opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the qualified opinion include the word <i>except</i> or <i>exception</i> in a phrase such as <i>except for</i> or <i>with the exception of</i> and a reference to the explanatory paragraph?	_____	_____	_____
c. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? [SAS 58, as amended by SAS 79, pars. 37 and 38 (AU 508.37 and .38)]	_____	_____	_____
23. If an adverse opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?	_____	_____	_____
c. State that the financial statements do not present fairly the financial position, or results of operations or cash flows in conformity with GAAP? [SAS 58, as amended by SAS 79, pars. 58 and 59 (AU 508.58 and .59)]	_____	_____	_____
<hr/> Note: Consult the Topical Index to the AICPA <i>Professional Standards</i> under "Departures From Established Principles," "Adverse Opinions," and "Qualified Opinions" for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion. <hr/>			
24. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document, is it accompanied by a report that:			
a. States that the audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	_____	_____	_____
b. Specifically identifies the accompanying information?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. States that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	_____	_____	_____
d. Includes either an opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion (depending on whether the information was subjected to the auditing procedures applied in the audit of the basic financial statements)? [SAS 29, par. 6 (AU 551.06)]	_____	_____	_____
25. If supplementary information required by GAAP is presented outside the basic financial statements in an auditor-submitted document, is an opinion disclaimed on such information unless it has been audited? [AAG, par 7.38]	_____	_____	_____
26. Did the auditor consider modification of the report with regard to the adequacy of the CIRA's disclosures about future repairs and replacements and its compliance with governing and state documents? [AAG, pars. 7.29–7.31]	_____	_____	_____
27. If the CIRA presents budget information of or unexpired periods (and is this considered to be prospective financial information) in documents that contain audited financial statements, is that information reported on in accordance with SSAE 1, <i>Financial Forecasts and Projections</i> ? [AAG, par. 7.22]	_____	_____	_____
28. If the CIRA presents budget information for expired periods that accompanies audited financial statements in an auditor submitted document, is that information reported on in accordance with SAS 29, <i>Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents</i> ? [AAG, par. 7.22]	_____	_____	_____
29. If an accountant assists a CIRA in preparing its budget, have the reporting provisions of SSAE 1 been considered? [AAG, par. 7.23]	_____	_____	_____

FSP Section 4500

Accountants' Reports on Compiled or Reviewed Financial Statements of Nonpublic Entities Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 This checklist is divided into two parts. Part I should be used by accountants engaged to compile financial statements and Part II should be used by accountants engaged to review financial statements.

.03 Explanation of References:

AAG =	AICPA Audit and Accounting Guide <i>Common Interest Realty Associations</i> (with conforming changes as of May 1, 1996)
SSARS =	AICPA Statement on Standards for Accounting and Review Services
AR =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 2)

.04 Checklist Questionnaire:

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Part I—For Compilation Engagements			
1. Is the compilation report appropriately worded? [SSARS 1, par. 14 (AR 100.14)]	_____	_____	_____
2. Does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement? [SSARS 1, par. 14 (AR 100.14)]	_____	_____	_____
3. For compiled financial statements that contain departures ¹ from generally accepted accounting principles (GAAP) or, where applicable, an other comprehensive basis of accounting (OCBOA):			
a. If the departure is the omission of substantially all required disclosures, does the accountant's report clearly indicate such omission? [SSARS 1, pars. 19 and 21 (AR 100.19 and .21)]	_____	_____	_____
b. If compiled financial statements that omit substantially all of the disclosures required by GAAP include disclosures about only a few matters, are such disclosures labeled "Selected Information—Substantially All Disclosures Required by GAAP or (OCBOA) Are Not Included"? [SSARS 1, par. 19 (AR 100.19)]	_____	_____	_____

¹ Other than departures required by a prescribed form or related instructions when the accountant issues a SSARS 3 (AR 300) compilation report on financial statements included in a prescribed form.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. If statements that omit substantially all required disclosures are prepared on a basis of accounting other than GAAP, and if such statements do not include disclosure of the basis of accounting used, does the accountant's report disclose the basis of accounting? [SSARS 1, par. 20 (AR 100.20)]	_____	_____	_____

Practice Tip

SAS 62, paragraphs 9 and 10 (AU sec. 623.09 and .10), provides guidance on evaluating the adequacy of disclosure in financial statements prepared in conformity with an other comprehensive basis of accounting.

d. If the financial statements contain a departure from GAAP or an OCBOA, is the report modified to disclose the departure? [SSARS 1, pars. 39 and 40 (AR 100.39 and .40)]	_____	_____	_____
(1) If the effects of the departure on the financial statements are determined by management or are known as a result of the accountant's procedures, are these effects also disclosed in the modified report? [SSARS 1, par. 40 (AR 100.40)]	_____	_____	_____
(2) If the effects are not determined, is this fact stated in the accountant's report? [SSARS 1, par. 40 (AR 100.40)]	_____	_____	_____
4. If the accountant is not independent with respect to the entity for which financial statements are compiled, does the compilation report state "I am (we are) not independent with respect to XYZ Company"? [SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]	_____	_____	_____
5. Is the report properly dated? [SSARS 1, par. 15 (AR 100.15)]	_____	_____	_____
6. Does each page of the financial statements include a reference such as "See Accountant's Compilation Report"? [SSARS 1, par. 16 (AR 100.16)]	_____	_____	_____
7. If the financial statements do not appropriately disclose an uncertainty, including an uncertainty about an entity's ability to continue as a going concern or an inconsistency in the application of accounting principles, does the report include a separate paragraph that discloses such matters? [SSARS 1, par. 40, fn. 18 (AR 100.4, fn. 18)]	_____	_____	_____
8. If the accountant compiles both the basic financial statements and other data that is presented for supplementary analysis purposes, does the compilation report also include the other data, indicating the degree of responsibility taken? [SSARS 1, par. 43 (AR 100.43)]	_____	_____	_____
9. If an audit engagement is changed to a review or compilation, does the report omit reference to:			
a. The original engagement?	_____	_____	_____
b. Any auditing or review procedures that may have been performed?	_____	_____	_____
c. Any scope limitation that resulted in the changed engagement? [SSARS 1, par. 49 (AR 100.49)]	_____	_____	_____
10. If comparative financial statements are presented, does the accountant's report cover each period presented? [SSARS 2, par. 2 (AR 200.02)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
11. If compiled financial statements that omit substantially all of the disclosures required by GAAP are included among the comparative financial statements, do all the periods presented also omit such disclosures? [SSARS 2, par. 5 (AR 200.05)]	_____	_____	_____
a. If the prior-period financial statements do not omit the required disclosures, and the accountant is requested to compile statements for the same period that do omit those disclosures, does the accountant's compilation report include an additional paragraph that indicates:			
(1) The nature of the previous service rendered (compilation, review, or audit)?	_____	_____	_____
(2) Date of the previous report? [SSARS 2, pars. 29–30 (AR 200.29–.30)]	_____	_____	_____
12. If the level of service performed by a continuing accountant on the current-period financial statements is the same as, or higher than, that performed on the financial statements of the prior period presented, is the report on the prior period updated? [SSARS 2, par. 8 (AR 200.08)]	_____	_____	_____
13. If the level of service performed by a continuing accountant on the current-period financial statements is lower than that performed on the financial statements of the prior period presented, is the current report modified appropriately or combined with a reissued report from the prior period? [SSARS 2, pars. 8 and 11–12 (AR 200.08 and .11–.12)]	_____	_____	_____
14. If the report requires a changed reference to a departure from GAAP regarding the prior period presented, does the explanatory paragraph in the report include the appropriate language? [SSARS 2, pars. 14–15 (AR 200.14–.15)]	_____	_____	_____
15. If the current-period financial statements were compiled and the financial statements of the prior period presented were audited and the audit report was not reissued, does the current-period report include a separate paragraph that contains the appropriate language? [SSARS 2, par. 28 (AR 200.28)]	_____	_____	_____

Predecessor's Compilation Report

16. If a predecessor accountant does not reissue his or her compilation or review report on the prior-period financial statements, does the successor accountant:			
a. Make appropriate reference in the report to the predecessor's report in accordance with paragraphs 17–19 of SSARS 2?	_____	_____	_____
or			
b. Perform a compilation, review, or audit of the statements of the prior period and report on them accordingly? [SSARS 2, pars. 16–19 (AR 200.16–.19)]	_____	_____	_____
17. If the financial statements of the prior period presented are changed, does the predecessor or successor accountant report on them as restated? [SSARS 2, pars. 25–26 (AR 200.25–.26)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
18. If the basic financial statements are compiled, is the required supplementary information accompanying the basic financial statements, at a minimum, compiled? [AAG, par. 8.09]	_____	_____	_____
19. If the basic financial statements are compiled and the accompanying required supplementary information is compiled, does the accountant indicate in the report, or in a separate report, the degree of responsibility he or she is taking for the supplementary information? [AAG, par. 8.10]	_____	_____	_____
20. If, on the basis of facts known to him or her, the accountant is aware that the required supplementary information is not measured or presented in accordance with prescribed guidelines, does the accountant indicate in his or her report that the information does not conform to the guidelines and describe the nature of any material departure? [AAG, par 8.11]	_____	_____	_____
21. If the compiled financial statements are not accompanied by the required supplementary information, is a paragraph added to the compilation report indicating that the required supplementary information is omitted? [AAG, par. 8.12]	_____	_____	_____

Part II—For Review Engagements

Note: An accountant is precluded from issuing a review report on the financial statements of an entity with respect to which he or she is not independent.

1. Is the review report appropriately worded? [SSARS 1, par. 32 (AR 100.32)]	_____	_____	_____
2. Does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement? [SSARS 1, par. 32 (AR 100.32)]	_____	_____	_____
3. For reviewed financial statements that contain departures from GAAP or, where applicable, OCBOA (including the omission of required disclosures), is the report modified to disclose the departure in a separate paragraph? [SSARS 1, pars. 39 and 40 (AR 100.39 and .40)]	_____	_____	_____
4. If the financial statements do not appropriately disclose an uncertainty, including an uncertainty about an entity's ability to continue as a going concern, or an inconsistency in the application of accounting principles, does the report include a separate paragraph that discloses such matters? [SSARS 1, par. 40, fn. 18 (AR 100.40, fn. 18)]	_____	_____	_____
5. Is the report properly dated? [SSARS 1, par. 33 (AR 100.33)]	_____	_____	_____
6. Does each page of the financial statements include a reference such as "See Accountant's Review Report"? [SSARS 1, par. 34 (AR 100.34)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
7. When accompanying information is presented with the financial statements, does the accountant clearly indicate his or her degree of responsibility with respect to such information? [SSARS 1, par. 43 (AR 100.43)]	_____	_____	_____
8. If an audit engagement is changed to a review, does the report omit reference to:			
a. The original engagement?	_____	_____	_____
b. Any auditing procedures that may have been performed?	_____	_____	_____
c. Any scope limitation that resulted in the changed engagement? [SSARS 1, par. 49 (AR 100.49)]	_____	_____	_____
9. If comparative financial statements are presented, does the accountant's report cover each period presented? [SSARS 2, par. 2 (AR 200.02)]	_____	_____	_____
10. If the level of service performed by a continuing accountant on the current-period financial statements is the same as, or higher than, that performed on the financial statements of the prior period presented, is the report on the prior period updated? [SSARS 2, par. 8 (AR 200.08)]	_____	_____	_____
11. If the level of service performed by a continuing accountant on the current-period financial statements is lower than that performed on the financial statements of the prior period presented, is the current report modified appropriately or combined with a reissued report from the prior period? [SSARS 2, pars. 8 and 11 and 12 (AR 200.08 and .11 and .12)]	_____	_____	_____
12. If the report requires a changed reference to a departure from GAAP regarding the prior period presented, does the explanatory paragraph include the appropriate language? [SSARS 2, pars. 14 and 15 (AR 200.14 and .15)]	_____	_____	_____
13. If the financial statements of the prior period presented are changed, does the predecessor or successor accountant report on them as restated? [SSARS 2, pars. 25 and 26 (AR 200.25 and .26)]	_____	_____	_____
14. If the current-period financial statements were reviewed and the financial statements of the prior period presented were audited and the audit report was not reissued, does the current-period report include a separate paragraph that contains the appropriate language? [SSARS 2, par. 28 (AR 200.28)]	_____	_____	_____
15. If the client does not provide a representation letter, has the accountant considered whether it is appropriate to issue a compilation report? [SSARS 7, pars. 44–49 (AR 100.44–.49)]	_____	_____	_____

Predecessor's Review Report

- | | | | |
|---|-------|-------|-------|
| 16. If a predecessor accountant does not reissue his or her compilation or review report on the prior-period financial statements, does the successor accountant: | | | |
| a. Make appropriate reference in the report to the predecessor's report in accordance with paragraphs 17–19 of SSARS 2? | _____ | _____ | _____ |
| or | | | |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Perform a compilation, review, or audit of the statements of the prior period and report on them accordingly? [SSARS 2, pars. 16–19 (AR 200.16–.19)]	_____	_____	_____

Required Supplementary Information

17. If the basic financial statements are reviewed, is the required supplementary information accompanying the basic financial statements, at a minimum, compiled? [AAG, par. 8.09]	_____	_____	_____
18. If the basic financial statements are reviewed and the accompanying required supplementary information is compiled, does the accountant indicate in the report, or in a separate report, the degree of responsibility he or she is taking for the supplementary information? [AAG, par. 8.10]	_____	_____	_____
19. If, on the basis of facts known to him or her, the accountant is aware that the required supplementary information is not measured or presented in accordance with prescribed guidelines, does the accountant indicate in his or her report that the information does not conform to the guidelines and describe the nature of any material departure? [AAG, par. 8.11]	_____	_____	_____
20. If the reviewed financial statements are not accompanied by the required supplementary information, is a paragraph added to the compilation or review report indicating that the required supplementary information is omitted? [AAG, par. 8.12]	_____	_____	_____

FSP Section 4600

Illustrative Financial Statements

.01 The illustrative financial statements are reproduced from the AICPA Audit and Accounting Guide *Common Interest Realty Associations*. These illustrative financial statements are intended to provide sample financial statement formats and disclosures for a hypothetical CIRA; they are not intended to illustrate all disclosures required by GAAP or all of the disclosures covered in the financial statement checklist. The following exhibits illustrate a fund accounting presentation for a condominium, as well as a set of nonfund accounting financial statements for a cooperative housing corporation.

- Exhibits 1.1 through 1.7 illustrate financial statements and supplementary information for a condominium association. Condominiums generally do not hold title to property transferred to them by the developers. Exhibits 1.1 and 1.2 present a balance sheet and a statement of revenues and expenses using fund reporting in a multicolumn format with a total funds column for the current and prior years. Exhibit 1.3 illustrates a statement of cash flows using the direct method. Exhibit 1.3A illustrates a statement of cash flows using the indirect method. This set of financial statements reflects an interfund receivable and payable of \$20,000, which the board of directors intends for the operating fund to repay to the replacement fund in the next fiscal year. The statements also disclose a transfer of \$10,000 from the replacement fund to the operating fund, which is an amount that the board of directors does not intend for the operating fund to repay to the replacement fund.
- The illustrative notes in Exhibit 1.4 include alternative presentations for Note 4, which discloses information about a CIRA's fund for future major repairs and replacements. Alternative A illustrates disclosure based on a study conducted by the board of directors. Alternative B is based on a study conducted by an independent consulting firm. Note 4 also illustrates disclosure for a loan from the replacement fund to the operating fund as well as a permanent transfer.
- Exhibits 1.5 and 1.6 present detailed schedules of actual and budgeted amounts of revenues and expenses for the operating fund and of changes in replacement fund balances. These schedules are not a required part of the basic financial statements; however, if they are included with the financial statements in an auditor-submitted document, the auditor should refer to SAS 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, for reporting guidance.
- Exhibit 1.7 presents required unaudited supplementary information. Alternative A illustrates disclosure based on a study conducted by the board of directors and presents estimates of current replacement costs. Alternative B is based on a study conducted by an independent consulting firm and presents estimates of future replacement costs, which are calculated considering inflation and estimated investment income.
- Exhibits 2.1 through 2.4 present financial statements and notes for a cooperative housing corporation.
- Exhibit 2.5 presents unaudited supplementary information, based on a study conducted by the board of directors, required for a cooperative housing corporation and presents estimates of current replacement costs.

.02 Auditors and accountants of financial statements of CIRAs should be familiar with the rules and regulations of the appropriate state regulator that relate to the form and content of the financial statements.

Exhibit 1.1

These illustrative financial statements are intended to provide sample financial statement formats and disclosures for a hypothetical CIRA; they are not intended to illustrate all disclosures required by GAAP or all of the disclosures covered in the financial statement checklist.

XYZ CONDOMINIUM ASSOCIATION, INC.**Balance Sheets****December 31, 19X2****(With Comparative Totals for 19X1)**

	19X2			19X1
	<i>Operating Fund</i>	<i>Replacement Fund</i>	<i>Total</i>	<i>Total</i>
Assets				
Cash and cash equivalents	\$110,000	\$364,000	\$474,000	\$298,000
Assessments receivable	28,000		28,000	9,000
Prepaid expenses	7,000		7,000	7,000
Due from operating fund		20,000	20,000	
Due to replacement fund	(20,000)		(20,000)	
Equipment, net of accumulated depreciation of \$8,000 and \$5,000	21,000		21,000	17,000
Total Assets	<u>\$146,000</u>	<u>\$384,000</u>	<u>\$530,000</u>	<u>\$331,000</u>
Liabilities				
Accounts payable	20,000	4,000	24,000	6,000
Wages payable	6,000		6,000	
Income taxes payable		1,000	1,000	5,000
Prepaid assessments	20,000		20,000	15,000
	46,000	5,000	51,000	26,000
Fund Balances	<u>100,000</u>	<u>379,000</u>	<u>479,000</u>	<u>305,000</u>
Total Liabilities and Fund Balances	<u>\$146,000</u>	<u>\$384,000</u>	<u>\$530,000</u>	<u>\$331,000</u>

The accompanying notes are an integral part of these financial statements.

Exhibit 1.2

XYZ CONDOMINIUM ASSOCIATION, INC.
Statements of Revenues and Expenses and Changes in Fund Balances
Year Ended December 31, 19X2
(With Comparative Totals for 19X1)

	19X2			19X1
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total</u>
Revenues				
Member assessments	\$747,000	\$247,000	\$ 994,000	\$ 909,000
Interest		49,000	49,000	46,000
Lawsuit settlements		141,000	141,000	91,000
Other	22,000		22,000	20,000
Total Revenues	<u>769,000</u>	<u>437,000</u>	<u>1,206,000</u>	<u>1,066,000</u>
Expenses				
Wages and benefits	294,000		294,000	284,000
Utilities	160,000		160,000	141,000
Roofs		144,000	144,000	160,000
Service and contracts	129,000		129,000	134,000
Exterior siding		94,000	94,000	98,000
Repairs and supplies	92,000		92,000	61,000
Insurance and licenses	50,000		50,000	46,000
Administrative	28,000		28,000	18,000
Income taxes	1,000	11,000	12,000	13,000
Legal fees		10,000	10,000	
Recreational equipment		5,000	5,000	2,000
Solar equipment		5,000	5,000	
Streets		4,000	4,000	20,000
Tennis courts				12,000
Depreciation	3,000		3,000	3,000
Bad debts	2,000		2,000	
Pools and spas				18,000
Total Expenses	<u>759,000</u>	<u>273,000</u>	<u>1,032,000</u>	<u>1,010,000</u>
Excess of revenues over expenses	10,000	164,000	174,000	56,000
Beginning fund balances	80,000	225,000	305,000	249,000
Transfer from replacement fund	10,000	(10,000)		
Ending Fund Balances	<u>\$100,000</u>	<u>\$379,000</u>	<u>\$ 479,000</u>	<u>\$ 305,000</u>

The accompanying notes are an integral part of these financial statements.

Exhibit 1.3

XYZ CONDOMINIUM ASSOCIATION, INC.

Statements of Cash Flows (Direct Method)

Year Ended December 31, 19X2

(With Comparative Totals for 19X1)

	19X2			19X1
	Operating Fund	Replacement Fund	Total	Total
Cash Flows From Operating Activities				
Member assessments collected	\$733,000	\$247,000	\$980,000	\$920,000
Interest received		49,000	49,000	46,000
Lawsuit settlement		141,000	141,000	91,000
Other income received	22,000		22,000	20,000
Cash paid for operating expenditures	(735,000)		(735,000)	(673,000)
Replacement expenditures paid		(258,000)	(258,000)	(310,000)
Income taxes paid	(1,000)	(15,000)	(16,000)	(26,000)
Transfers from replacement fund	10,000	(10,000)		
Net borrowings from replacement fund	20,000	(20,000)		
Net cash provided by operating activities	49,000	134,000	183,000	68,000
Cash Flows From Investing Activities				
Equipment purchases	(7,000)		(7,000)	(3,000)
Net increase in cash and cash equivalents	42,000	134,000	176,000	65,000
Cash and cash equivalents at beginning of year	68,000	230,000	298,000	233,000
Cash and cash equivalents at end of year	<u>\$110,000</u>	<u>\$364,000</u>	<u>\$474,000</u>	<u>\$298,000</u>
Reconciliation of Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities				
Excess of revenues over expenses	10,000	164,000	174,000	56,000
Adjustments to Reconcile Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities				
Increase (decrease) in interfund balances	20,000	(20,000)		
Transfer from replacement fund	10,000	(10,000)		
Depreciation	3,000		3,000	3,000
Increase in assessments receivable	(19,000)		(19,000)	(1,000)
Decrease in prepaid expenses				1,000
Increase in accounts payable	14,000	4,000	18,000	2,000
Increase in wages payable	6,000		6,000	
Decrease in income taxes payable		(4,000)	(4,000)	
Increase in prepaid assessments	5,000		5,000	7,000
Total adjustments	39,000	(30,000)	9,000	12,000
Net cash provided by operating activities	<u>\$ 49,000</u>	<u>\$134,000</u>	<u>\$183,000</u>	<u>\$ 68,000</u>

The accompanying notes are an integral part of these financial statements.

Exhibit 1.3A

XYZ CONDOMINIUM ASSOCIATION, INC.

Statements of Cash Flows (Indirect Method)

Year Ended December 31, 19X2

(With Comparative Totals for 19X1)

	19X2			19X1
	<i>Operating Fund</i>	<i>Replacement Fund</i>	<i>Total</i>	<i>Total</i>
Excess of Revenues Over Expenses	<u>\$ 10,000</u>	<u>\$164,000</u>	<u>\$174,000</u>	<u>\$ 56,000</u>
Adjustments to Reconcile Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities				
Increase (decrease) in interfund balances	20,000	20,000		
Transfer from replacement fund	10,000	(10,000)		
Depreciation	3,000		3,000	3,000
Increase in assessments receivable	(19,000)		(19,000)	(1,000)
Decrease in prepaid expenses				1,000
Increase in accounts payable	14,000	4,000	18,000	2,000
Increase in wages payable	6,000		6,000	
Decrease in income taxes payable		(4,000)	(4,000)	
Increase in prepaid assessments	5,000		5,000	7,000
Total adjustments	<u>39,000</u>	<u>(30,000)</u>	<u>9,000</u>	<u>12,000</u>
Net cash provided by operating activities	<u>49,000</u>	<u>134,000</u>	<u>183,000</u>	<u>68,000</u>
Cash Flows From Investing Activities				
Equipment purchases	<u>(7,000)</u>		<u>(7,000)</u>	<u>(3,000)</u>
Net increase in cash and cash equivalents	<u>42,000</u>	<u>134,000</u>	<u>176,000</u>	<u>65,000</u>
Cash and cash equivalents at beginning of year	<u>68,000</u>	<u>230,000</u>	<u>298,000</u>	<u>233,000</u>
Cash and cash equivalents at end of year	<u><u>\$110,000</u></u>	<u><u>\$364,000</u></u>	<u><u>\$474,000</u></u>	<u><u>\$298,000</u></u>

The accompanying notes are an integral part of these financial statements.

Exhibit 1.4

XYZ CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 19X2 and 19X1

Note 1: Organization

The XYZ Condominium Association is a statutory condominium association organized as a not-for-profit corporation for the purposes of maintaining and preserving common property of the XYZ condominium. The XYZ condominium consists of 800 residential units occupying a site of approximately 10 acres located at _____. The Association began its operations in June 19XX.

Note 2: Summary of Significant Accounting Policies

Pervasiveness of Estimates. The preparation of financial statements to conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fund accounting. The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the board of directors and property manager. Disbursements from the replacement fund generally may be made only for designated purposes.

Interest earned. The board's policy is to allocate to the replacement fund interest earned on all cash accounts net of income taxes.

Recognition of assets and depreciation policy. The Association recognizes personal property assets at cost. The property is depreciated over its estimated useful life using the straight-line method of depreciation.

Note 3: Owners' Assessments

Monthly assessments to owners were \$103.54 and \$94.69 in 19X2 and 19X1. Of those amounts, \$25.73 and \$22.50 were designated to the replacement fund.

The annual budget and assessments of owners are determined by the board of directors and are approved by the owners. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

Note 4: Future Major Repairs and Replacements

Alternative A. The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and generally are not available for expenditures for normal operations.

The board of directors conducted a study in November 19X2 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from licensed contractors who inspected the property. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

The board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the funding requirement of \$302,000 has been included in the 19X3 budget.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

The Association used \$30,000 from the replacement fund for operations during 19X2. The board intends to repay \$20,000 of that amount during 19X3 and has, therefore, reflected \$20,000 as an interfund receivable and payable. The board does not intend to repay \$10,000 of the amount and has, therefore, reflected \$10,000 as a transfer from the replacement to the operating fund.

Alternative B. The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations.

The ABC Consulting Company conducted a study in November 19X2 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 5 percent and interest of 8 percent, net of taxes, on amounts funded for future major repairs and replacements. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

The board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of future replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the funding requirement of \$374,000 has been included in the 19X3 budget.

Funds are being accumulated in the replacement fund based on estimated future costs for repairs and replacements of common property components. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

The Association used \$30,000 from the replacement fund for operations during 19X2. The board intends to repay \$20,000 of that amount during 19X3 and has, therefore, reflected \$20,000 as an interfund receivable and payable. The board does not intend to repay \$10,000 of the amount and has, therefore, reflected \$10,000 as a transfer from the replacement to the operating fund.

Note 5: Federal and State Taxes

In 19X2, the Association filed its income tax return as a regular corporation. The Association had an excess of expenses for the maintenance of the common property over membership source income. That excess may be carried over to future periods to offset future income from membership sources when the Association files as a regular corporation. In 19X1, the Association elected to file as a homeowner's association in accordance with Internal Revenue Code section 528. Under that section, the Association excludes from taxation exempt function income, which generally consists of revenue from uniform assessments to owners. In both years, the Association's investment income and other nonexempt income were subject to tax.

Note 6: Lawsuit Settlements

During 19X1, the Association settled a lawsuit against the developer for defective construction and received a partial settlement of \$91,000. During 19X2, the Association received another settlement of \$141,000. Legal fees of \$10,000 were incurred in connection with that lawsuit.

The following net amounts have been added to the replacement fund:

	<u>19X2</u>	<u>19X1</u>
Roof	\$131,000	\$66,000
Tennis courts	0	23,000
Pools and spas	0	1,000
Streets	0	1,000
Total	<u>\$131,000</u>	<u>\$91,000</u>

Note 7: Assessments Receivable

The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are 30 days in arrears. As of December 31, 19X2, the Association had assessments receivable of \$28,000, of which \$22,000 were delinquent. As of February 12, 19X3, judgments and settlements of approximately \$15,000 have been received. It is the opinion of the board of directors that the Association will ultimately prevail against the remaining homeowners whose assessments are delinquent, and, accordingly, no allowance for uncollectible accounts is deemed necessary.

Exhibit 1.5

XYZ CONDOMINIUM ASSOCIATION, INC.
Schedules of Operating Fund Revenues and Expenses
Years Ended December 31, 19X2 and 19X1

	19X2		19X1	
	19X2 <u>Actual</u>	19X2 <u>Budget</u> (Unaudited)	19X1 <u>Actual</u>	19X1 <u>Budget</u> (Unaudited)
Revenues:				
Assessments	\$747,000	\$747,000	\$693,000	\$693,000
Other charges	22,000	23,000	20,000	20,000
Total	<u>769,000</u>	<u>770,000</u>	<u>713,000</u>	<u>713,000</u>
Expenses				
Wages and Benefits:				
Grounds	130,000	144,000	106,000	128,000
Maintenance	87,000	100,000	98,000	100,000
Payroll taxes and benefits	37,000	31,000	31,000	30,000
Office	27,000	31,000	34,000	35,000
Workers' compensation insurance	13,000	16,000	15,000	15,000
	<u>294,000</u>	<u>322,000</u>	<u>284,000</u>	<u>308,000</u>
Utilities:				
Electricity	111,000	108,000	100,000	95,000
Water	29,000	33,000	33,000	33,000
Gas	20,000	9,000	8,000	12,000
	<u>160,000</u>	<u>150,000</u>	<u>141,000</u>	<u>140,000</u>
Service and Contracts:				
Security	43,000	45,000	45,000	50,000
Cable T.V.	21,000	20,000	19,000	20,000
Trash disposal	19,000	19,000	18,000	20,000
Pool service	18,000	18,000	17,000	15,000
Janitorial	15,000	21,000	21,000	20,000
Pest control	13,000	14,000	14,000	10,000
	<u>129,000</u>	<u>137,000</u>	<u>134,000</u>	<u>135,000</u>
Repairs and Supplies:				
Landscape supplies	15,000	11,000	9,000	10,000
Equipment repairs	14,000	11,000	13,000	12,000
Equipment rental	13,000	13,000	8,000	7,000
Vehicle maintenance	12,000	14,000	7,000	10,000

(continued)

XYZ CONDOMINIUM ASSOCIATION, INC.
Schedules of Operating Fund Revenues and Expenses—continued
Years Ended December 31, 19X2 and 19X1

	<u>19X2</u>		<u>19X1</u>	
	<u>19X2</u>	<u>19X2</u>	<u>19X1</u>	<u>19X1</u>
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>
		<u>(Unaudited)</u>		<u>(Unaudited)</u>
Repairs and supplies (cont.):				
Fence repairs	\$ 8,000	\$ 8,000	\$ 8,000	\$ 7,000
Plumbing	6,000	5,000	5,000	8,000
Street repairs	5,000	2,000	2,000	6,000
Parts and supplies	5,000	2,000	2,000	1,000
Pool repairs	4,000	5,000	1,000	2,000
Sprinkler supplies	4,000	7,000	3,000	2,000
Electrical	3,000	3,000	2,000	3,000
Tennis courts	3,000	2,000	1,000	2,000
	<u>92,000</u>	<u>83,000</u>	<u>61,000</u>	<u>70,000</u>
Insurance and licenses:				
Insurance	49,000	49,000	45,000	40,000
Licenses	1,000	1,000	1,000	
	<u>50,000</u>	<u>50,000</u>	<u>46,000</u>	<u>40,000</u>
Administrative:				
Accounting	11,000	10,000	6,000	7,000
Legal	9,000	11,000	8,000	8,000
Office	4,000	4,000	1,000	1,000
Telephone	4,000	3,000	3,000	4,000
	<u>28,000</u>	<u>28,000</u>	<u>18,000</u>	<u>20,000</u>
Bad debts:	<u>2,000</u>			
Depreciation:	<u>3,000</u>		<u>3,000</u>	
Income taxes:	<u>1,000</u>			
Total Expenses	<u>759,000</u>	<u>770,000</u>	<u>687,000</u>	<u>713,000</u>
Excess of Revenues Over Expenses	<u>\$ 10,000</u>	<u>\$</u>	<u>\$ 26,000</u>	<u>\$</u>

The accompanying notes are an integral part of these financial statements.

Exhibit 1.6

XYZ CONDOMINIUM ASSOCIATION, INC.
Schedules of Changes in Replacement Fund Balances
Years Ended December 31, 19X2 and 19X1

	19X2			<i>Components of Ending Fund Balance</i>
	<i>Beginning Fund Balance</i>	<i>Additions to Fund*</i>	<i>Charges to Fund</i>	
Common Area Component				
Roofs	\$ 96,000	\$202,000	\$144,000	\$154,000
Streets	17,000	44,000	4,000	57,000
Recreation facilities	50,000	10,000	5,000	55,000
Exterior siding	38,000	104,000	94,000	48,000
Pools, spas, solar equipment	8,000	36,000	5,000	39,000
Tennis courts	4,000	10,000		14,000
Furniture and equipment	12,000			12,000
Lawsuit legal fees		10,000	10,000	
Total	<u>\$225,000</u>	<u>\$416,000</u>	<u>\$262,000</u>	<u>\$379,000</u>

	19X1			<i>Components of Ending Fund Balance</i>
	<i>Beginning Fund Balance</i>	<i>Additions to Fund*</i>	<i>Charges to Fund</i>	
Common Area Component				
Roofs	\$102,000	\$154,000	\$160,000	\$ 96,000
Streets	11,000	26,000	20,000	17,000
Recreation facilities	35,000	17,000	2,000	50,000
Exterior siding	32,000	104,000	98,000	38,000
Pools, spas, solar equipment	13,000	13,000	18,000	8,000
Tennis courts	2,000	14,000	12,000	4,000
Furniture and equipment		12,000		12,000
Total	<u>\$195,000</u>	<u>\$340,000</u>	<u>\$310,000</u>	<u>\$225,000</u>

The accompanying notes are an integral part of these financial statements.

* Includes interest income of \$49,000, net of income taxes of \$11,000 and net of a \$10,000 transfer to the operating fund in 19X2 and interest income of \$46,000, net of income taxes of \$13,000 in 19X1.

These reconciling items may be presented as illustrated here or in separate columns in this schedule.

Exhibit 1.7

XYZ CONDOMINIUM ASSOCIATION, INC.
Supplementary Information on Future Major Repairs and Replacements
December 31, 19X2
(Unaudited)

Alternative A

The board of directors conducted a study in November 19X2 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from licensed contractors who inspected the property.

The following table is based on the study and presents significant information about the components of common property.

<i>Components</i>	<i>Estimated Remaining Useful Lives (Years)</i>	<i>Estimated Current Replacement Costs</i>	<i>19X3 Funding Requirement</i>	<i>Components of Fund Balance at Dec. 31, 19X2</i>
Roofs	5 to 14	\$1,620,000	\$120,000	\$154,000
Streets	5 to 14	96,000	40,000	57,000
Recreation facilities	2 to 11	120,000	12,000	55,000
Exterior siding	7 to 11	760,000	72,000	48,000
Pools, spas, solar equipment	2 to 14	112,000	36,000	39,000
Tennis courts	5 to 10	64,000	10,000	14,000
Furniture and equipment	3 to 7	80,000	12,000	12,000
		<u>\$2,852,000</u>	<u>\$302,000</u>	<u>\$379,000</u>

Alternative B

The ABC Consulting Company conducted a study in November 19X2 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 5 percent and interest rate of 8 percent, net of taxes, on amounts funded for future major repairs and replacements.

The following table is based on the study and presents significant information about the components of common property.

<i>Components</i>	<i>Estimated Remaining Useful Lives (Years)</i>	<i>Estimated Current Replacement Costs</i>	<i>19X3 Funding Requirement</i>	<i>Components of Fund Balance at Dec. 31, 19X2</i>
Roofs	5 to 14	\$3,023,000	\$152,000	\$154,000
Streets	5 to 14	179,000	46,000	57,000
Recreation facilities	2 to 11	180,000	15,000	55,000
Exterior siding	7 to 11	1,256,000	93,000	48,000
Pools, spas, solar equipment	2 to 14	174,000	42,000	39,000
Tennis courts	5 to 10	97,000	12,000	14,000
Furniture and equipment	3 to 7	107,000	14,000	12,000
		<u>\$5,016,000</u>	<u>\$374,000</u>	<u>\$379,000</u>

Exhibit 2.1

These illustrative financial statements are intended to provide sample financial statement formats and disclosures for a hypothetical CIRA; they are not intended to illustrate all disclosures required by GAAP or all of the disclosures covered in the financial statement checklist.

ABC COOPERATIVE, INC.* (A COOPERATIVE HOUSING CORPORATION)

Balance Sheet

December 31, 19X2

Assets

Cash, including investment in money market fund of \$6,850		\$ 38,000
Carrying charges receivables		15,000
Prepaid expenses		9,000
Property and equipment		
Land	\$ 640,000	
Building	1,720,000	
Building improvements:		
construction in progress	140,000	
Furniture and equipment	90,000	
	<u>2,590,000</u>	
Less: accumulated depreciation	1,620,000	
Net property		970,000
Mortgage refinancing costs, less accumulated amortization of \$15,000		<u>25,000</u>
Total Assets		<u><u>\$1,057,000</u></u>

Liabilities and Shareholders' Deficiency

Accounts payable and accrued expenses		118,000
Prepaid rents		6,000
Mortgage note payable		1,865,000
Security deposits of commercial lessees		<u>8,000</u>
Total Liabilities		1,997,000
Shareholders' deficiency		
Common stock—\$2.00 par value; authorized—		
40,000 shares; issued and outstanding—		
20,000 shares	40,000	
Additional paid-in-capital	<u>420,000</u>	
	460,000	
Deficit	<u>(1,400,000)</u>	
Total shareholders' deficiency:		(940,000)
Total Liabilities and Shareholders' Deficiency		<u><u>\$1,057,000</u></u>

The accompanying notes are an integral part of these financial statements.

* If separate funds are maintained for future repairs and replacements or for other purposes, fund reporting may be more informative to users of the financial statements of cooperative housing corporations and may be used as an alternative presentation.

Exhibit 2.2

ABC COOPERATIVE, INC. (A COOPERATIVE HOUSING CORPORATION)

Statements of Revenues, Expenses, and Deficit

Year Ended December 31, 19X2

Revenues

Carrying charges	\$ 700,000
Commercial rent	89,000
Appliance and air-conditioning charges	45,000
Interest	10,000
Resale fees	3,000
Forfeited security deposits	<u>2,000</u>
Total Revenues	849,000

Expenses

Wages, including fringe benefits	\$ 295,000
Real estate taxes	237,000
Interest	195,000
Utilities	121,000
Repairs and maintenance	53,000
Management fees	24,000
Insurance	16,000
Legal and accounting	10,000
Security	4,000
Income taxes	2,000
Total Expenses Before Depreciation and Amortization	<u>957,000</u>
Deficiency of revenues over expenses before depreciation	(108,000)
Depreciation	<u>72,000</u>
Deficiency of revenues over expenses	(180,000)
Deficit—beginning of year	<u>(1,220,000)</u>
Deficit—End of Year	<u><u>\$(1,400,000)</u></u>

The accompanying notes are an integral part of these financial statements.

Exhibit 2.3

ABC COOPERATIVE, INC. (A COOPERATIVE HOUSING CORPORATION)

Statement of Cash Flows (Direct Method)

Year Ended December 31, 19X2

Cash Flows From Operating Activities	
Carrying charges, net of \$60,000 allocated to financing activities	\$ 640,000
Commercial rent	89,000
Appliance and air-conditioning charges and resale fees	48,000
Interest income	10,000
Forfeited security deposits	2,000
Cash paid to employees and suppliers	(437,000)
Real estate taxes	(292,000)
Interest expense	(140,000)
Net cash absorbed by operating activities	<u>(80,000)</u>
Cash Flows From Financing Activities	
Carrying charges	60,000
Repayment of debt	(60,000)
Net cash from financing activities	<u>0</u>
Cash Flows From Investing Activities	
Additions to building, furniture, and equipment	<u>(150,000)</u>
Net decrease in cash and cash equivalents	(230,000)
Cash and Cash Equivalents	
Beginning of period	<u>268,000</u>
End of period	<u>\$ 38,000</u>
Reconciliation of Deficiency of Revenues Over Expenses to Net Cash Absorbed by Operating Activities	
Deficiency of revenues over expenses	\$(180,000)
Adjustments to Reconcile Deficiency of Revenues Over Expenses to Net Cash Absorbed by Operating Activities	
Revenue allocated to financial activities	(60,000)
Depreciation	72,000
(Increase) in tenant-shareholder rent receivables	(2,000)
Decrease in prepaid expenses	3,000
Increase in accounts payable and accrued expenses	85,000
Increase in prepaid rents	3,000
(Decrease) in security deposits of commercial leases	(1,000)
Net cash absorbed by operating activities	<u>\$ (80,000)</u>

The accompanying notes are an integral part of these financial statements.

Exhibit 2.4

ABC COOPERATIVE, INC. (A COOPERATIVE HOUSING CORPORATION)

Notes to Financial Statements

December 31, 19X2

Note 1: Organization

ABC Cooperative, Inc., a cooperative housing corporation, was incorporated in the state of New York in April, 19XX. The Corporation owns the eighteen-story building known as ABC Apartments located at _____ in New York City and consisting of 175 residential apartments and ten commercial units.

Note 2: Summary of Significant Accounting Policies

Pervasiveness of Estimates. The preparation of financial statements to conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment. Property and equipment are stated at cost. Depreciation is computed on the straight-line basis, based on a thirty-year life for the building and a ten-year life for building improvements, furniture, and equipment.

Mortgage refinancing costs. Mortgage refinancing costs are amortized by the interest method over the ten-year term of the loan.

Note 3: Revenue

Carrying charges. Carrying charges are based on an annual budget determined by the board of directors. Tenant-shareholders are billed monthly based on their respective stock holdings. The Corporation retains excess operating funds, if any, at the end of the operating year, for use in future operating periods.

Commercial rent. The Corporation has entered into five-year lease agreements with ten commercial tenants providing for annual rentals aggregating \$92,000 with increases based on the Consumer Price Index.

Note 4: Mortgage Note Payable

The Corporation has a mortgage note payable, secured by the land and building, to XYZ Bank of New York with interest at the rate of 10 percent. The aggregate amount of required principal payments at December 31, 19X2 is as follows:

19X3	\$ 61,000
19X4	62,000
19X5	63,000
19X6	65,000
19X7	67,000
later years	1,547,000
Total	<u>\$1,865,000</u>

Note 5: Federal and State Taxes

The Corporation is subject to federal and state taxation on net income derived from transactions with nonmembers pursuant to section 277 of the Internal Revenue Code. Income tax expense in 19X2 was \$2,000.

Note 6: Future Major Repairs and Replacements

The Corporation's governing documents require that funds be accumulated for future major repairs and replacements. The Corporation has not accumulated those funds. When those funds are needed, the Corporation plans to borrow, increase carrying charges, or delay repairs and replacements until funds are available.

The board of directors conducted a study in November 19X2 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from licensed contractors who inspected the property. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

Comment Letter

We welcome any comments and suggestions you have regarding this Checklist. Please send this completed form to: AICPA, Accounting and Auditing Publications, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ, 07311-3881. Thank you.

Checklist Title: _____

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